

Chapter 7

Accounting Information Systems

STUDY OBJECTIVES

After studying this chapter, you should be able to:

- 1 Identify the basic concepts of an accounting information system.
- 2 Describe the nature and purpose of a subsidiary ledger.
- 3 Explain how companies use special journals in journalizing.
- 4 Indicate how companies post a multi-column journal.



The Navigator

Scan Study Objectives	■
Read Feature Story	■
Read Preview	■
Read text and answer DO IT! p. 307 ■ p. 321 ■	
Work Comprehensive DO IT! p. 321	■
Review Summary of Study Objectives	■
Answer Self-Study Questions	■
Complete Assignments	■

Feature Story

QUICKBOOKS® HELPS THIS RETAILER SELL GUITARS

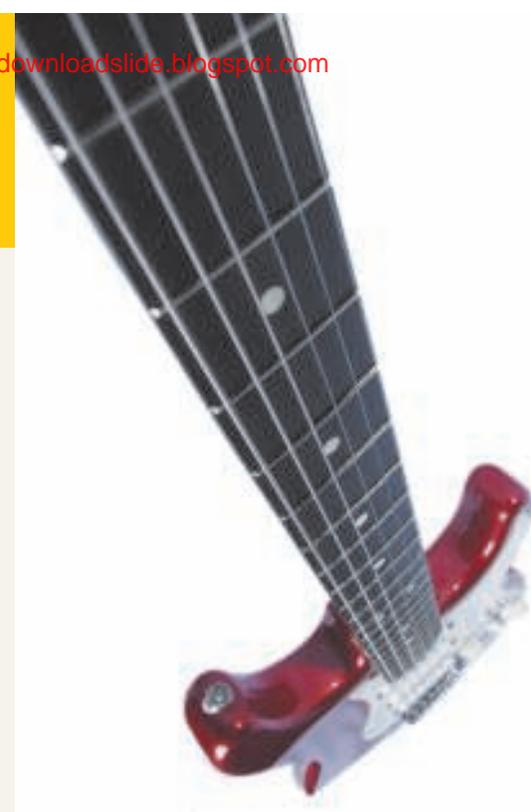
Starting a small business requires many decisions. For example, you have to decide where to locate, how much space you need, how much inventory to have, how many employees to hire, and where to advertise. Small business owners are typically so concerned about the product and sales side of their business that they often do not give enough thought to something that is critical to their success—how to keep track of financial results.

Small business owners today can choose either manual or computerized accounting systems. For example, Paul and Laura West are the owners of the first independent dealership of Carvin guitars and professional audio equipment. When they founded their company, in Sacramento, California, they

decided to purchase a computerized accounting system that would integrate many aspects of their retail operations. They wanted their accounting software to manage their inventory of guitars and amplifiers, ring up sales, record and report financial data, and process credit card and debit card transactions. They evaluated a number of options and chose QuickBooks® by Intuit Inc.

QuickBooks®, like most other popular software packages, has programs designed for the needs of a specific business, which in this case is retailing. This QuickBooks® retailing package automatically collects sales information from its point-of-sale scanning devices. It also keeps track of inventory levels and automatically generates purchase orders for popular items when re-order points are reached. It even supports sales efforts by compiling a customer database from which the Wests send out targeted direct mailings to potential customers. The computerized system enables data files to be emailed to the company's accountant. This keeps costs down and makes it easier and more efficient to generate financial reports as needed. The Wests believe that the investment in the computerized system has saved them time and money and allowed them to spend more time on other aspects of their business.

Source: Intuit Inc., "QuickBooks® and ProAdvisor® Help Make Guitar Store a Hit," *Journal of Accountancy*, May 2006, p. 101.



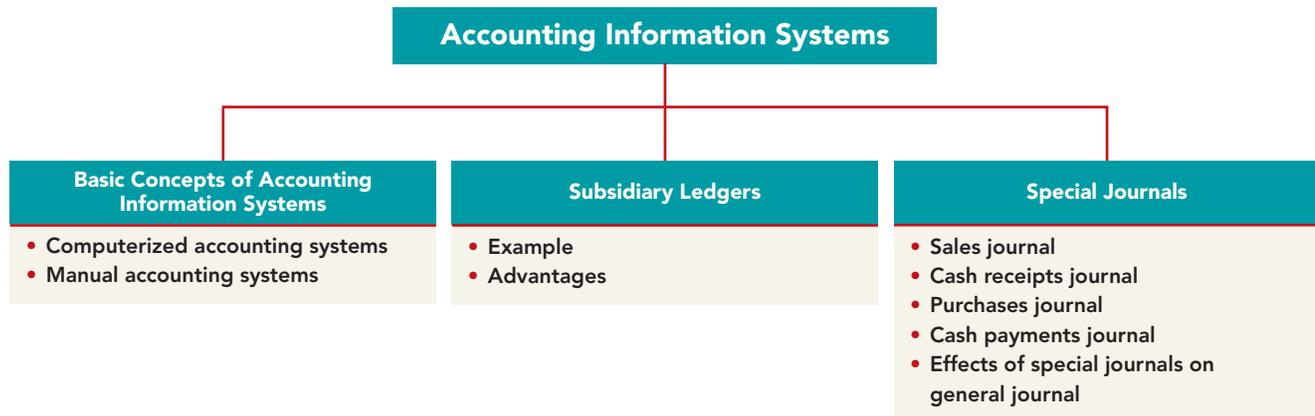
Inside Chapter 7...

- **Curbing Fraudulent Activity with Software** (p. 304)
- **"I'm John Smith, a.k.a. 13695071642"** (p. 307)

Preview of Chapter 7

As you see from the Feature Story, a reliable information system is a necessity for any company. Whether companies use pen, pencil, or computers in maintaining accounting records, certain principles and procedures apply. The purpose of this chapter is to explain and illustrate these features.

The content and organization of Chapter 7 are as follows.



BASIC CONCEPTS OF ACCOUNTING INFORMATION SYSTEMS

STUDY OBJECTIVE 1

Identify the basic concepts of an accounting information system.

The **accounting information system** collects and processes transaction data and communicates financial information to decision makers. It includes each of the steps in the accounting cycle that you studied in earlier chapters. It also includes the documents that provide evidence of the transactions, and the records, trial balances, worksheets, and financial statements that result. An **accounting system** may be either manual or computerized. Most businesses these days use some sort of computerized accounting system, whether it is an off-the-shelf system for small businesses, like QuickBooks or Peachtree, or a more complex custom-made system.

Efficient and effective accounting information systems are based on certain basic principles. These principles, as described in Illustration 7-1 (page 303), are: (1) cost effectiveness, (2) usefulness, and (3) flexibility. If the accounting system is cost effective, provides useful output, and has the flexibility to meet future needs, it can contribute to both individual and organizational goals.

Computerized Accounting Systems

Many small businesses eventually replace their manual accounting system with a computerized general ledger accounting system. **General ledger accounting systems** are software programs that integrate the various accounting functions related to sales, purchases, receivables, payables, cash receipts and disbursements, and payroll. They also generate financial statements. Computerized systems have a number of advantages over manual systems. First, the company typically enters data only once in a computerized system. Second, because the computer does most steps automatically, many errors resulting from human intervention in a manual system,

Cost Effectiveness
The accounting system must be cost-effective. Benefits of information must outweigh the cost of providing it.



Useful Output
To be useful, information must be understandable, relevant, reliable, timely, and accurate. Designers of accounting systems must consider the needs and knowledge of various users.



Flexibility
The accounting system should accommodate a variety of users and changing information needs. The system should be sufficiently flexible to meet the resulting changes in the demands made upon it.

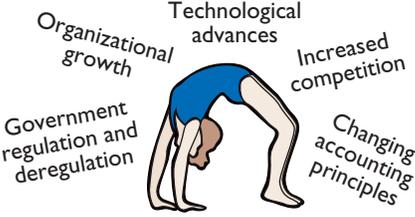


Illustration 7-1
Principles of an efficient and effective accounting information system

such as errors in posting or preparation of financial statements, are eliminated. Computerized systems also provide information up-to-the-minute. More timely information results in better business decisions. Many different general ledger software packages are available.

CHOOSING A SOFTWARE PACKAGE

To identify the right software for your business, you must understand your company's operations. For example, consider its needs with regard to inventory, billing, payroll, and cash management. In addition, the company might have specific needs that are not supported by all software systems. For example, you might want to track employees' hours on individual jobs or to extract information for determining sales commissions. Choosing the right system is critical because installation of even a basic system is time-consuming, and learning a new system will require many hours of employee time.

ENTRY-LEVEL SOFTWARE

Software publishers tend to classify businesses into groups based on revenue and the number of employees. Companies with revenues of less than \$5 million and up to 20 employees generally use **entry-level programs**. The two leading entry-level programs are **Intuit's QuickBooks** and **Sage Software's Peachtree**. These programs control more than 90% of the market. Each of these entry-level programs comes in many different industry-specific versions. For example, some are designed for very specific industry applications such as restaurants, retailing, construction, manufacturing, or nonprofit. *(Both QuickBooks and Peachtree, as well as this textbook's general ledger system, can be used in working many of the problems in this textbook.)*

Quality entry-level packages typically involve more than recording transactions and preparing financial statements. Here are some common features and benefits:

- **Easy data access and report preparation.** Users can easily access information related to specific customers or suppliers. For example, you can view all transactions, invoices, payments, as well as contact information for a specific client.
- **Audit trail.** As a result of the Sarbanes-Oxley Act, companies are now far more concerned that their accounting system minimizes opportunities for fraud.

Many programs provide an “audit trail” that enables the tracking of all transactions.



ETHICS NOTE

Entire books and movies have used computer-system tampering as a major theme. Most programmers would agree that tamper-proofing and debugging programs are the most difficult and time-consuming phases of their jobs.

- **Internal controls.** Some systems have an internal accounting review that identifies suspicious transactions or likely mistakes such as wrong account numbers or duplicate transactions.
- **Customization.** This feature enables the company to create data fields specific to the needs of its business.
- **Network-compatibility.** Multiple users in the company can access the system at the same time.

ENTERPRISE RESOURCE PLANNING SYSTEMS

Enterprise resource planning (ERP) systems are typically used by manufacturing companies with more than 500 employees and \$500 million in sales. The best-known of these systems are SAP (the most widely used) by **SAP AG**, **J.D. Edwards’** ERP, and **Oracle’s** Financials. ERP systems go far beyond the functions of an entry-level general ledger package. They integrate all aspects of the organization, including accounting, sales, human resource management, and manufacturing. Because of the complexity of an ERP system, implementation can take three years and cost five times as much as the purchase price of the system. Purchase and implementation of ERP systems can cost from \$250,000 to as much as \$50 million for the largest multinational corporations.

ETHICS INSIGHT



Curbing Fraudulent Activity with Software

The Sarbanes-Oxley Act (SOX) requires that companies demonstrate that they have adequate controls in place to detect significant fraudulent behavior by employees. As of November 2005 about 15% of publicly traded companies reported at least one material weakness in their controls that needed to be remedied.

The SOX requirements have created a huge market for software that can monitor and trace every recorded transaction and adjusting entry. This enables companies to pinpoint *who* used the accounting system and *when* they used it. These systems also require “electronic signatures” by employees for all significant transactions. Such signatures verify that employees have followed all required procedures, and that all actions are properly authorized. SOX-related technology spending was estimated to be approximately \$2 billion in 2005. One firm that specializes in compliance software had 10 clients prior to SOX and 250 after SOX.

Source: W. M. Bulkeley and C. Forelle, “Anti-Crime Program: How Corporate Scandals Gave Tech Firms a New Business Line,” *Wall Street Journal*, December 9, 2005, p. A1.



Why might this software help reduce fraudulent activity by employees?



Manual Accounting Systems

Manual accounting systems perform each of the steps in the accounting cycle by hand. For example, someone manually enters each accounting transaction in the journal and manually posts each to the ledger. Other manual computations must be made to obtain ledger account balances and to prepare a trial balance and financial statements. In the remainder of this chapter, we illustrate the use of a manual system.

You might be wondering, “Why cover manual accounting systems if the real world uses computerized systems?” First, small businesses still abound. Most of them begin operations with manual accounting systems and convert to computerized systems as the business grows. You may work in a small business, or start your own someday, so it is useful to know how a manual system works. Second, to understand what computerized accounting systems do, you also need to understand manual accounting systems.

The manual accounting system represented in the first six chapters of this textbook is satisfactory in a company with a low volume of transactions. However, in most companies, it is necessary to add additional ledgers and journals to the accounting system to record transaction data efficiently.

SUBSIDIARY LEDGERS

Imagine a business that has several thousand charge (credit) customers and shows the transactions with these customers in only one general ledger account—Accounts Receivable. It would be nearly impossible to determine the balance owed by an individual customer at any specific time. Similarly, the amount payable to one creditor would be difficult to locate quickly from a single Accounts Payable account in the general ledger.

Instead, companies use subsidiary ledgers to keep track of individual balances. A **subsidiary ledger** is a group of accounts with a common characteristic (for example, all accounts receivable). It is an addition to, and an expansion of, the general ledger. The subsidiary ledger frees the general ledger from the details of individual balances.

Two common subsidiary ledgers are:

1. The **accounts receivable** (or **customers’**) **subsidiary ledger**, which collects transaction data of individual customers.
2. The **accounts payable** (or **creditors’**) **subsidiary ledger**, which collects transaction data of individual creditors.

In each of these subsidiary ledgers, companies usually arrange individual accounts in alphabetical order.

A general ledger account summarizes the detailed data from a subsidiary ledger. For example, the detailed data from the accounts receivable subsidiary ledger are summarized in Accounts Receivable in the general ledger. The general ledger account that summarizes subsidiary ledger data is called a **control account**. Illustration 7-2 (page 306) presents an overview of the relationship of subsidiary ledgers to the general ledger. There, the general ledger control accounts and subsidiary ledger accounts are in green. Note that cash and owner’s capital in this illustration are not control accounts because there are no subsidiary ledger accounts related to these accounts.

At the end of an accounting period, each general ledger control account balance must equal the composite balance of the individual accounts in the related subsidiary ledger. For example, the balance in Accounts Payable in Illustration 7-2 must equal the total of the subsidiary balances of Creditors X + Y + Z.

STUDY OBJECTIVE 2

Describe the nature and purpose of a subsidiary ledger.

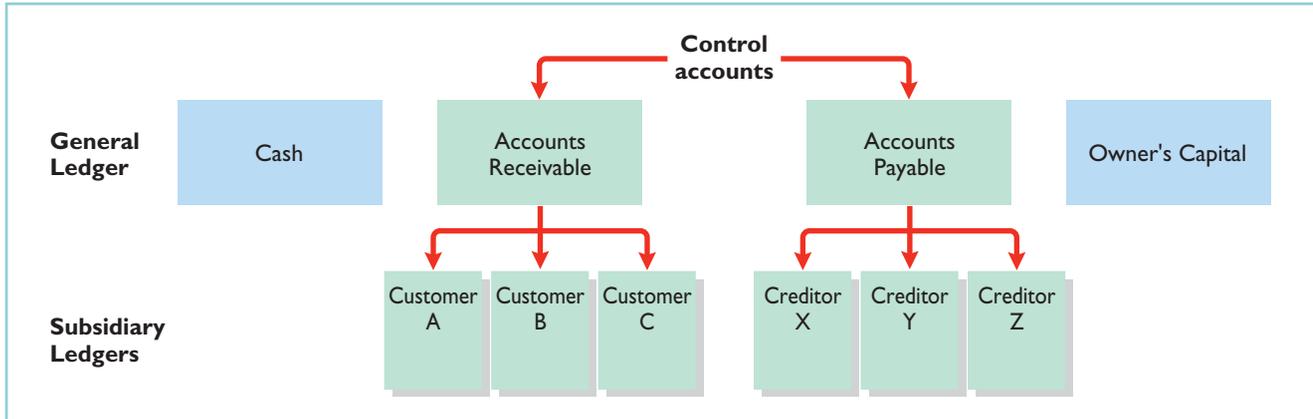
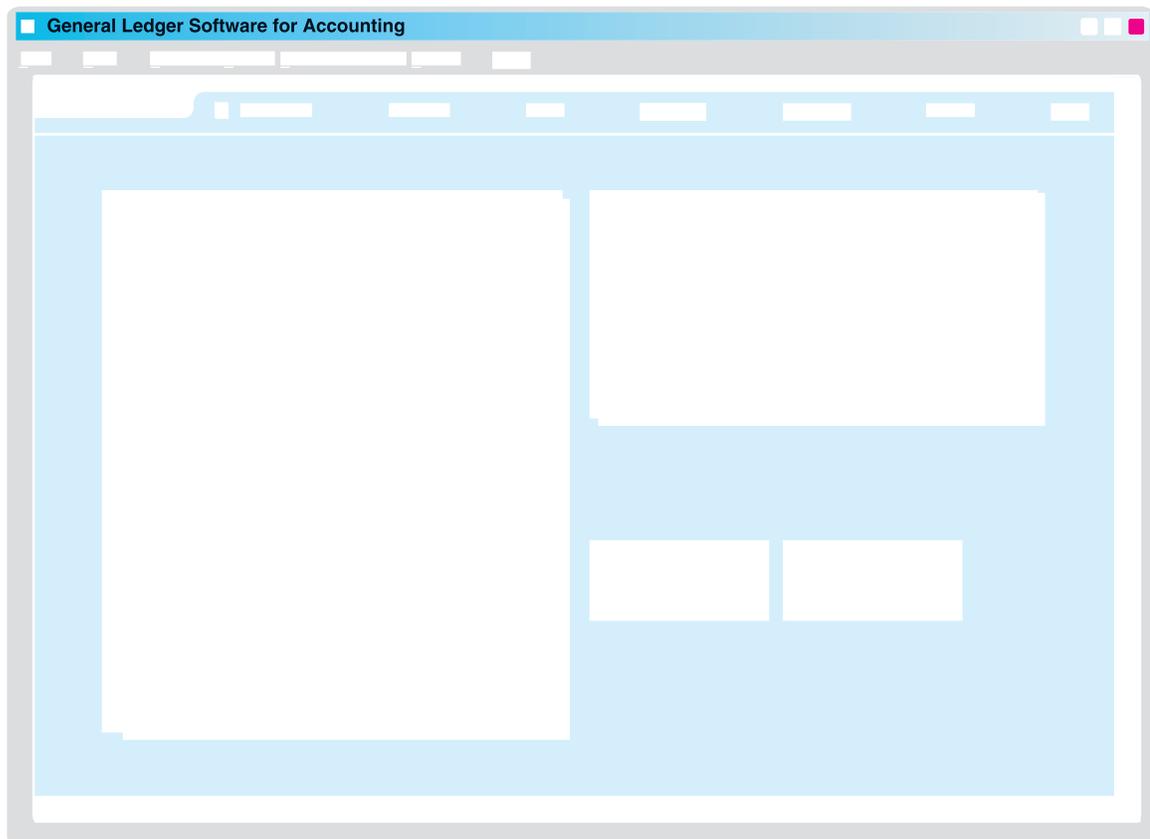


Illustration 7-2
Relationship of general ledger and subsidiary ledgers

Subsidiary Ledger Example

Illustration 7-3 provides an example of a control account and subsidiary ledger for Pujols Enterprises. (Due to space considerations, the explanation column in these accounts is not shown in this and subsequent illustrations.) Illustration 7-3 is based on the transactions listed in Illustration 7-4.

Illustration 7-3
Relationship between general and subsidiary ledgers



Pujols can reconcile the total debits (\$12,000) and credits (\$8,000) in Accounts Receivable in the general ledger to the detailed debits and credits in the subsidiary accounts. Also, the balance of \$4,000 in the control account agrees with the total of the balances in the individual accounts (Aaron Co. \$2,000 + Branden Inc. \$0 + Caron Co. \$2,000) in the subsidiary ledger.

As Illustration 7-3 shows, companies make monthly postings to the control accounts in the general ledger. This practice allows them to prepare monthly financial statements. Companies post to the individual accounts in the subsidiary ledger daily. Daily posting ensures that account information is current. This enables the company to monitor credit limits, bill customers, and answer inquiries from customers about their account balances.

Advantages of Subsidiary Ledgers

Subsidiary ledgers have several advantages:

1. **They show in a single account transactions affecting one customer or one creditor**, thus providing up-to-date information on specific account balances.
2. **They free the general ledger of excessive details.** As a result, a trial balance of the general ledger does not contain vast numbers of individual account balances.
3. **They help locate errors in individual accounts** by reducing the number of accounts in one ledger and by using control accounts.
4. **They make possible a division of labor** in posting. One employee can post to the general ledger while someone else posts to the subsidiary ledgers.

ACCOUNTING ACROSS THE ORGANIZATION



"I'm John Smith, a.k.a. 13695071642"

Rather than relying on customer or creditor names in a subsidiary ledger, a computerized system expands the account number of the control account in a pre-specified manner. For example, if Accounts Receivable was numbered 10010, the first account in the accounts receivable subsidiary ledger might be numbered 10010-0001. Most systems allow inquiries about specific accounts in the subsidiary ledger (by account number) or about the control account. With the latter, the system would automatically total all the subsidiary accounts whenever an inquiry to the control account was made.



Why use numbers to identify names in a computerized system?



DO IT!

Presented below is information related to Sims Company for its first month of operations. Determine the balances that appear in the accounts payable subsidiary ledger. What Accounts Payable balance appears in the general ledger at the end of January?

SUBSIDIARY LEDGERS

Credit Purchases			Cash Paid		
Jan. 5	Devon Co.	\$11,000	Jan. 9	Devon Co.	\$7,000
11	Shelby Co.	7,000	14	Shelby Co.	2,000
22	Taylor Co.	14,000	27	Taylor Co.	9,000

action plan

- ✓ Subtract cash paid from credit purchases to determine the balances in the accounts payable subsidiary ledger.
- ✓ Sum the individual balances to determine the Accounts Payable balance.

Solution

Subsidiary ledger balances:

Devon Co. \$4,000 (\$11,000 – \$7,000)

Shelby Co. \$5,000 (\$7,000 – \$2,000)

Taylor Co. \$5,000 (\$14,000 – \$9,000)

General ledger Accounts Payable balance: \$14,000 (\$4,000 + \$5,000 + \$5,000)

Related exercise material: BE7-4, BE7-5, E7-1, E7-2, E7-4, E7-5, and **DO IT!** 7-1.



SPECIAL JOURNALS

STUDY OBJECTIVE 3

Explain how companies use special journals in journalizing.

So far you have learned to journalize transactions in a two-column general journal and post each entry to the general ledger. This procedure is satisfactory in only the very smallest companies. To expedite journalizing and posting, most companies use special journals **in addition to the general journal**.

Companies use **special journals** to record similar types of transactions. Examples are all sales of merchandise on account, or all cash receipts. The types of transactions that occur frequently in a company determine what special journals the company uses. Most merchandising enterprises record daily transactions using the journals shown in Illustration 7-5.

Illustration 7-5

Use of special journals and the general journal

Sales Journal	Cash Receipts Journal	Purchases Journal	Cash Payments Journal	General Journal
Used for: All sales of merchandise on account	Used for: All cash received (including cash sales)	Used for: All purchases of merchandise on account	Used for: All cash paid (including cash purchases)	Used for: Transactions that cannot be entered in a special journal, including correcting, adjusting, and closing entries

If a transaction cannot be recorded in a special journal, the company records it in the general journal. For example, if a company had special journals for only the four types of transactions listed above, it would record purchase returns and allowances in the general journal. Similarly, **correcting, adjusting, and closing entries are recorded in the general journal.** In some situations, companies might use special journals other than those listed above. For example, when sales returns and allowances are frequent, a company might use a special journal to record these transactions.

Special journals **permit greater division of labor** because several people can record entries in different journals at the same time. For example, one employee may journalize all cash receipts, and another may journalize all credit sales. Also, the use of special journals **reduces the time needed to complete the posting process.** With special journals, companies may post some accounts monthly, instead

of daily, as we will illustrate later in the chapter. On the following pages, we discuss the four special journals shown in Illustration 7-5.

Sales Journal

In the **sales journal**, companies record **sales of merchandise on account**. Cash sales of merchandise go in the cash receipts journal. Credit sales of assets other than merchandise go in the general journal.

JOURNALIZING CREDIT SALES

To demonstrate use of a sales journal, we will use data for Karns Wholesale Supply, which uses a **perpetual inventory system**. Under this system, each entry in the sales journal results in one entry **at selling price** and another entry **at cost**. The entry at selling price is a debit to Accounts Receivable (a control account) and a credit of equal amount to Sales. The entry at cost is a debit to Cost of Goods Sold and a credit of equal amount to Merchandise Inventory (a control account). Using a sales journal with two amount columns, the company can show on only one line a sales transaction at both selling price and cost. Illustration 7-6 shows this two-column sales journal of Karns Wholesale Supply, using assumed credit sales transactions (for sales invoices 101–107).

HELPFUL HINT

Postings are also made daily to individual ledger accounts in the inventory subsidiary ledger to maintain a perpetual inventory.

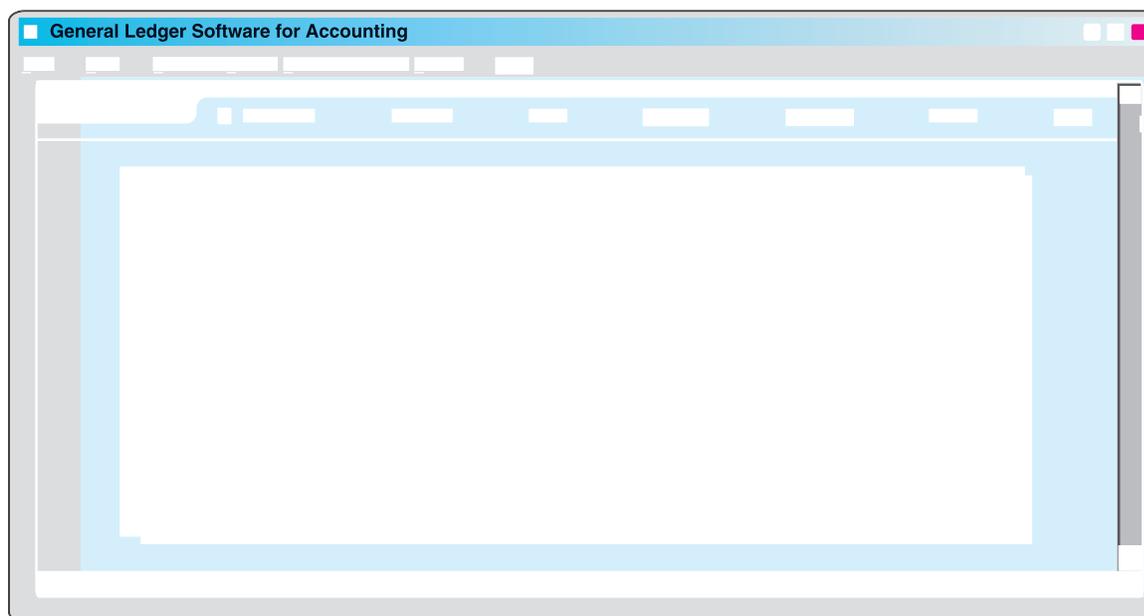
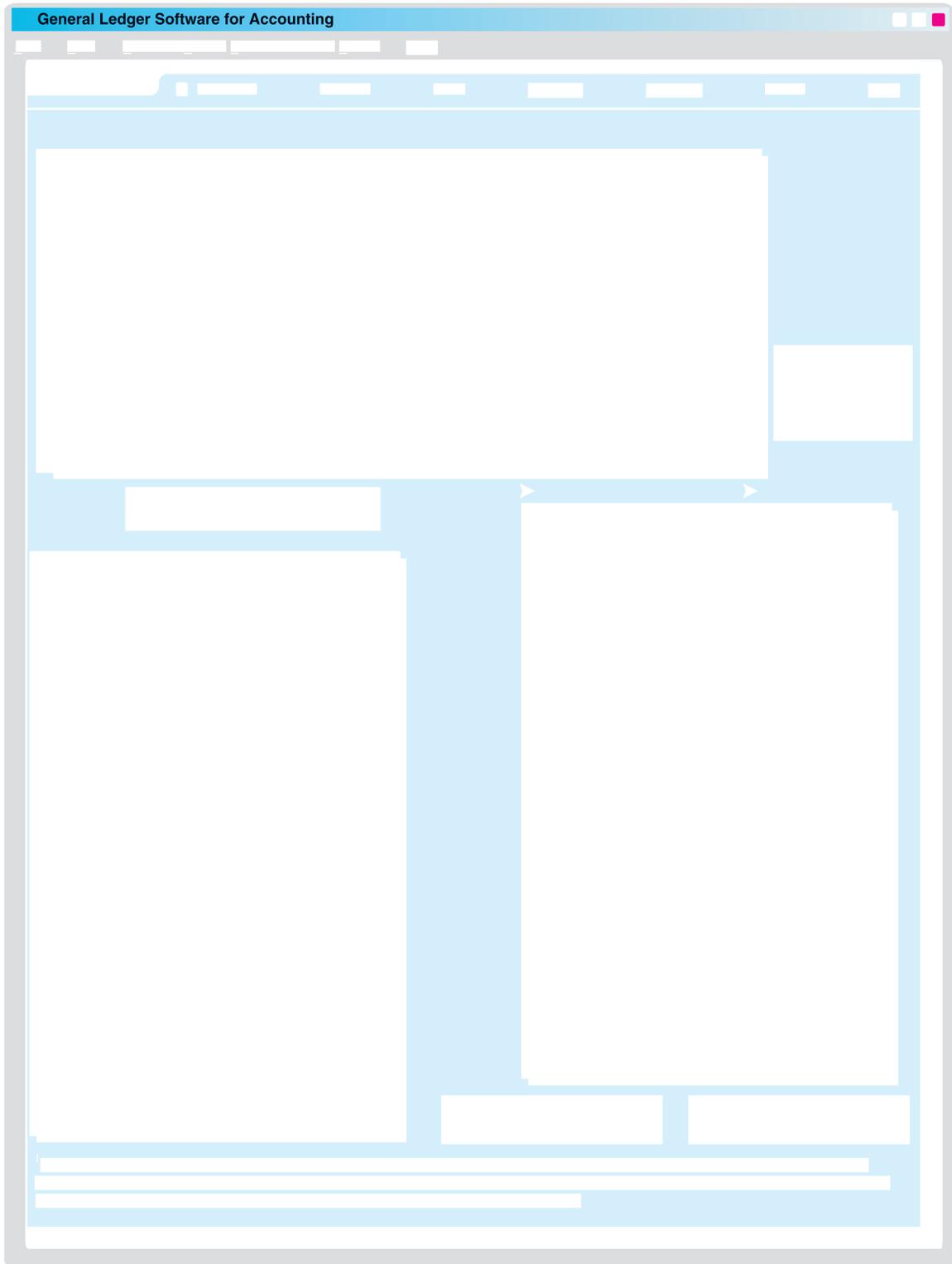


Illustration 7-6
Journalizing the sales journal—perpetual inventory system

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price column, a debit of \$90,230 to Accounts Receivable (account No. 112), and a credit of \$90,230 to Sales (account No. 401). From the cost column, a debit of \$62,190 to Cost of Goods Sold (account No. 505), and a credit of \$62,190 to Merchandise Inventory (account No. 120). Karns inserts the account numbers below the column totals to indicate that the postings have been made. In both the general ledger and subsidiary ledger accounts, the reference **S1** indicates that the posting came from page 1 of the sales journal.

PROVING THE LEDGERS

The next step is to “prove” the ledgers. To do so, Karns must determine two things: (1) The total of the general ledger debit balances must equal the total of the general ledger credit balances. (2) The sum of the subsidiary ledger balances must equal the balance in the control account. Illustration 7-8 shows the proof of the postings from the sales journal to the general and subsidiary ledger.

Postings to General Ledger		Debit Postings to the Accounts Receivable Subsidiary Ledger	
General Ledger		Subsidiary Ledger	
<u>Credits</u>			
Merchandise Inventory	\$62,190	Abbot Sisters	\$26,000
Sales	90,230	Babson Co.	25,920
	<u>\$152,420</u>	Carson Bros.	7,800
		Deli Co.	30,510
			<u>\$90,230</u>
<u>Debits</u>			
Accounts Receivable	\$90,230		
Cost of Goods Sold	62,190		
	<u>\$152,420</u>		

Illustration 7-8

Proving the equality of the postings from the sales journal

ADVANTAGES OF THE SALES JOURNAL

The use of a special journal to record sales on account has a number of advantages. First, the one-line entry for each sales transaction saves time. In the sales journal, it is not necessary to write out the four account titles for each transaction. Second, only totals, rather than individual entries, are posted to the general ledger. This saves posting time and reduces the possibilities of errors in posting. Finally, a division of labor results, because one individual can take responsibility for the sales journal.

Cash Receipts Journal

In the **cash receipts journal**, companies record all receipts of cash. The most common types of cash receipts are cash sales of merchandise and collections of accounts receivable. Many other possibilities exist, such as receipt of money from bank loans and cash proceeds from disposal of equipment. A one- or two-column cash receipts journal would not have space enough for all possible cash receipt transactions. Therefore, companies use a multiple-column cash receipts journal.

Generally, a cash receipts journal includes the following columns: debit columns for Cash and Sales Discounts, and credit columns for Accounts Receivable, Sales, and “Other” accounts. Companies use the “Other Accounts”

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category when the cash receipt does not involve a cash sale or a collection of accounts receivable. Under a perpetual inventory system, each sales entry also is accompanied by an entry that debits Cost of Goods Sold and credits Merchandise Inventory for the cost of the merchandise sold. Illustration 7-9 (page 313) shows a six-column cash receipts journal.

Companies may use additional credit columns if these columns significantly reduce postings to a specific account. For example, a loan company, such as **Household International**, receives thousands of cash collections from customers. Using separate credit columns for Loans Receivable and Interest Revenue, rather than the Other Accounts credit column, would reduce postings.

JOURNALIZING CASH RECEIPTS TRANSACTIONS

To illustrate the journalizing of cash receipts transactions, we will continue with the May transactions of Karns Wholesale Supply. Collections from customers relate to the entries recorded in the sales journal in Illustration 7-6. The entries in the cash receipts journal are based on the following cash receipts.

- | | |
|-----|--|
| May | <ul style="list-style-type: none"> 1 D. A. Karns makes an investment of \$5,000 in the business. 7 Cash sales of merchandise total \$1,900 (cost, \$1,240). 10 Received a check for \$10,388 from Abbot Sisters in payment of invoice No. 101 for \$10,600 less a 2% discount. 12 Cash sales of merchandise total \$2,600 (cost, \$1,690). 17 Received a check for \$11,123 from Babson Co. in payment of invoice No. 102 for \$11,350 less a 2% discount. 22 Received cash by signing a note for \$6,000. 23 Received a check for \$7,644 from Carson Bros. in full for invoice No. 103 for \$7,800 less a 2% discount. 28 Received a check for \$9,114 from Deli Co. in full for invoice No. 104 for \$9,300 less a 2% discount. |
|-----|--|

Further information about the columns in the cash receipts journal is listed below.

Debit Columns:

1. **Cash.** Karns enters in this column the amount of cash actually received in each transaction. The column total indicates the total cash receipts for the month.
2. **Sales Discounts.** Karns includes a Sales Discounts column in its cash receipts journal. By doing so, it does not need to enter sales discount items in the general journal. As a result, the cash receipts journal shows on one line the collection of an account receivable within the discount period.

HELPFUL HINT

When is an account title entered in the "Account Credited" column of the cash receipts journal?

Answer: A *subsidiary ledger* account is entered when the entry involves a collection of accounts receivable. A *general ledger* account is entered when the account is not shown in a special column (and an amount must be entered in the Other Accounts column). Otherwise, no account is shown in the "Account Credited" column.

Credit Columns:

3. **Accounts Receivable.** Karns uses the Accounts Receivable column to record cash collections on account. The amount entered here is the amount to be credited to the individual customer's account.
4. **Sales.** The Sales column records all cash sales of merchandise. Cash sales of other assets (plant assets, for example) are not reported in this column.
5. **Other Accounts.** Karns uses the Other Accounts column whenever the credit is other than to Accounts Receivable or Sales. For example, in the first entry, Karns enters \$5,000 as a credit to D. A. Karns, Capital. This column is often referred to as the sundry accounts column.

Debit and Credit Column:

6. **Cost of Goods Sold and Merchandise Inventory.** This column records debits to Cost of Goods Sold and credits to Merchandise Inventory.

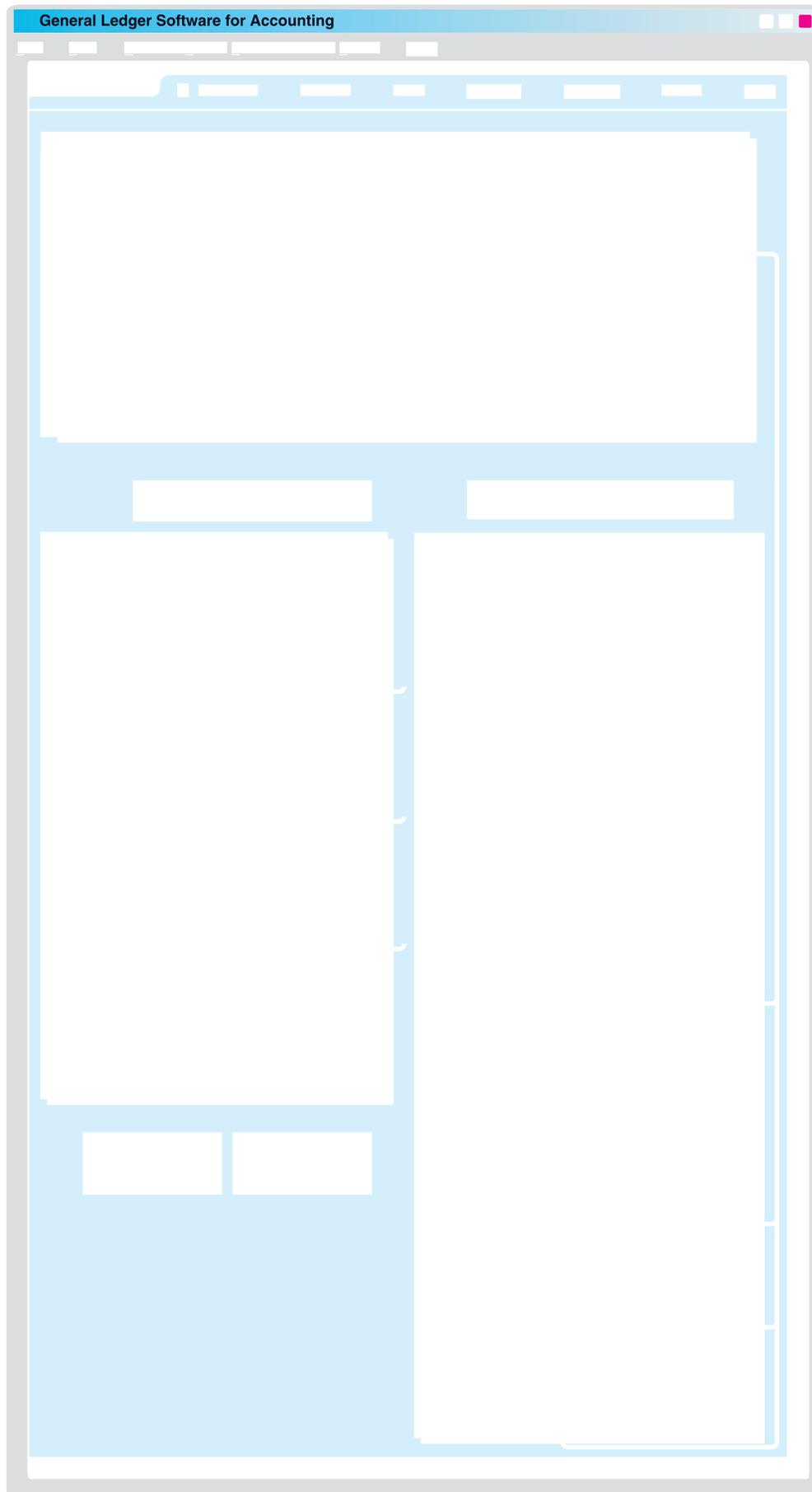


Illustration 7-9
Journalizing and posting the
cash receipts journal

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In a multi-column journal, generally only one line is needed for each entry. Debit and credit amounts for each line must be equal. When Karns journalizes the collection from Abbot Sisters on May 10, for example, three amounts are indicated. Note also that the Account Credited column identifies both general ledger and subsidiary ledger account titles. General ledger accounts are illustrated in the May 1 and May 22 entries. A subsidiary account is illustrated in the May 10 entry for the collection from Abbot Sisters.

When Karns has finished journalizing a multi-column journal, it totals the amount columns and compares the totals to prove the equality of debits and credits. Illustration 7-10 shows the proof of the equality of Karns's cash receipts journal.

Illustration 7-10

Proving the equality of the cash receipts journal

<u>Debits</u>		<u>Credits</u>	
Cash	\$53,769	Accounts Receivable	\$39,050
Sales Discounts	781	Sales	4,500
Cost of Goods Sold	<u>2,930</u>	Other Accounts	11,000
	<u>\$57,480</u>	Merchandise Inventory	<u>2,930</u>
			<u>\$57,480</u>

Totaling the columns of a journal and proving the equality of the totals is called **footing** and **cross-footing** a journal.

POSTING THE CASH RECEIPTS JOURNAL

Posting a multi-column journal involves the following steps.

STUDY OBJECTIVE 4

Indicate how companies post a multi-column journal.

1. **At the end of the month**, the company posts all column totals, except for the Other Accounts total, to the account title(s) specified in the column heading (such as Cash or Accounts Receivable). The company then enters account numbers below the column totals to show that they have been posted. For example, Karns has posted cash to account No. 101, accounts receivable to account No. 112, merchandise inventory to account No. 120, sales to account No. 401, sales discounts to account No. 414, and cost of goods sold to account No. 505.
2. The company **separately posts the individual amounts comprising the Other Accounts total** to the general ledger accounts specified in the Account Credited column. See, for example, the credit posting to D. A. Karns, Capital. The total amount of this column has not been posted. The symbol (X) is inserted below the total to this column to indicate that the amount has not been posted.
3. The individual amounts in a column, posted in total to a control account (Accounts Receivable, in this case), are posted **daily to the subsidiary ledger** account specified in the Account Credited column. See, for example, the credit posting of \$10,600 to Abbot Sisters.

The symbol **CR**, used in both the subsidiary and general ledgers, identifies postings from the cash receipts journal.

PROVING THE LEDGERS

After posting of the cash receipts journal is completed, Karns proves the ledgers. As shown in Illustration 7-11, the general ledger totals agree. Also, the sum of the subsidiary ledger balances equals the control account balance.

Accounts Receivable Subsidiary Ledger		General Ledger	
Abbot Sisters	\$15,400	<u>Debits</u>	
Babson Co.	14,570	Cash	\$53,769
Deli Co.	21,210	Accounts Receivable	51,180
	<u>\$51,180</u>	Sales Discounts	781
		Cost of Goods Sold	65,120
			<u>\$170,850</u>
		<u>Credits</u>	
		Notes Payable	\$ 6,000
		D.A. Karns, Capital	5,000
		Sales	94,730
		Merchandise Inventory	65,120
			<u>\$170,850</u>

Illustration 7-11

Proving the ledgers after posting the sales and the cash receipts journals

Purchases Journal

In the **purchases journal**, companies record all purchases of merchandise on account. Each entry in this journal results in a debit to Merchandise Inventory and a credit to Accounts Payable. Illustration 7-13 (on page 316) shows the purchases journal for Karns Wholesale Supply.

When using a one-column purchases journal (as in Illustration 7-13), a company cannot journalize other types of purchases on account or cash purchases in it. For example, in the purchases journal in Illustration 7-13, Karns would have to record credit purchases of equipment or supplies in the general journal. Likewise, all cash purchases would be entered in the cash payments journal. As illustrated later, companies that make numerous credit purchases for items other than merchandise often expand the purchases journal to a multi-column format. (See Illustration 7-15 on page 317.)

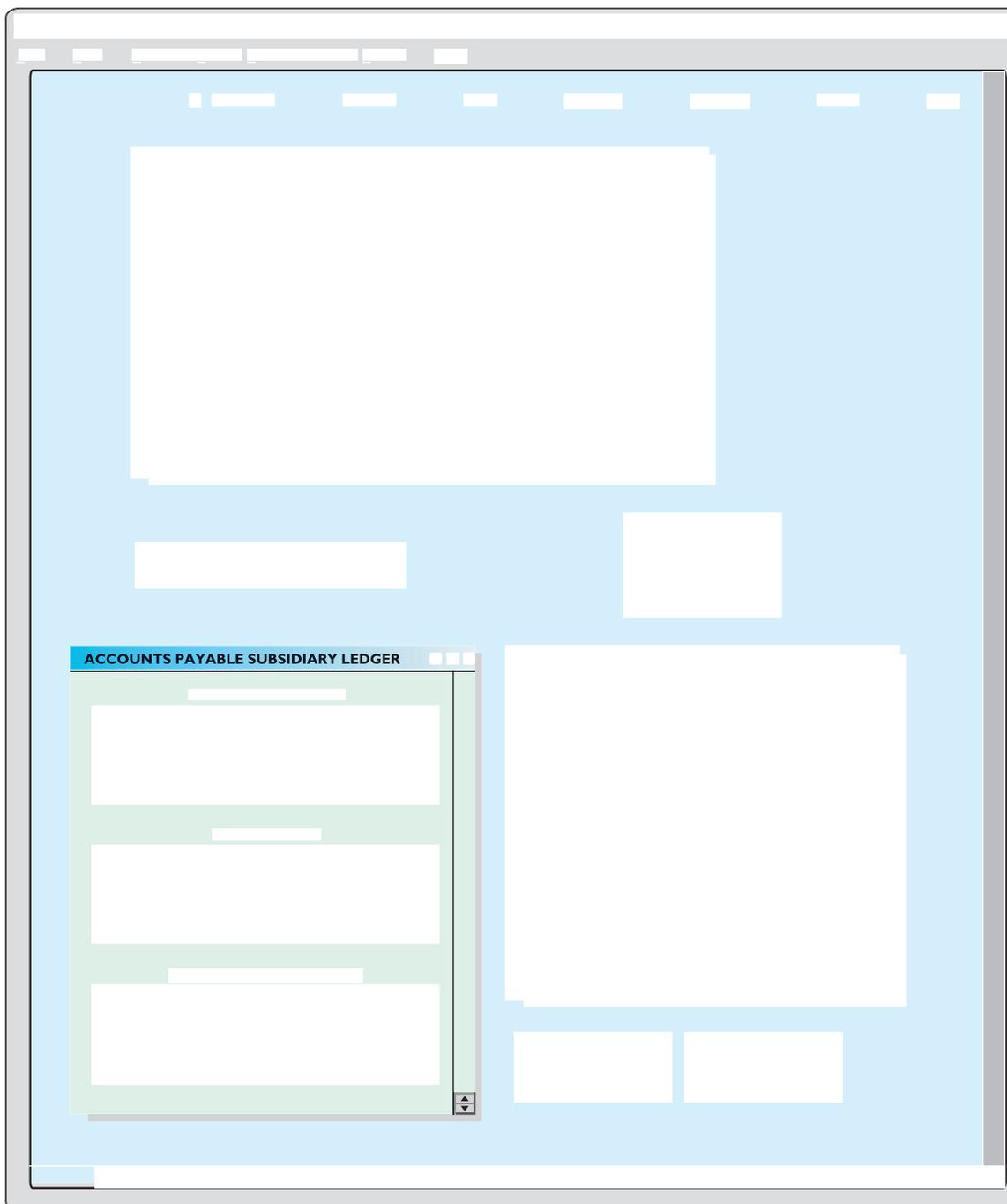
JOURNALIZING CREDIT PURCHASES OF MERCHANDISE

The journalizing procedure is similar to that for a sales journal. Companies make entries in the purchases journal from purchase invoices. In contrast to the sales journal, the purchases journal may not have an invoice number column, because invoices received from different suppliers will not be in numerical sequence. To ensure that they record all purchase invoices, some companies consecutively number each invoice upon receipt and then use an internal document number column in the purchases journal. The entries for Karns Wholesale Supply are based on the assumed credit purchases listed in Illustration 7-12.

Date	Supplier	Amount
5/6	Jasper Manufacturing Inc.	\$11,000
5/10	Eaton and Howe Inc.	7,200
5/14	Fabor and Son	6,900
5/19	Jasper Manufacturing Inc.	17,500
5/26	Fabor and Son	8,700
5/29	Eaton and Howe Inc.	12,600

Illustration 7-12

Credit purchases transactions



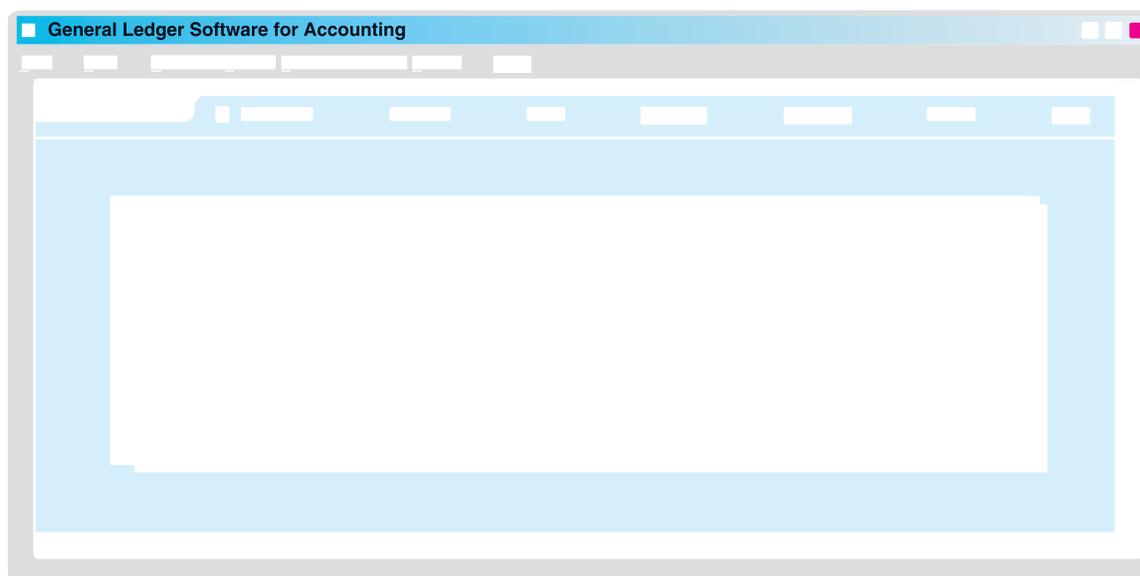
POSTING THE PURCHASES JOURNAL

The procedures for posting the purchases journal are similar to those for the sales journal. In this case, Karns makes **daily** postings to the **accounts payable ledger**; it makes **monthly** postings to Merchandise Inventory and Accounts Payable in the general ledger. In both ledgers, Karns uses **P1** in the reference column to show that the postings are from page 1 of the purchases journal.

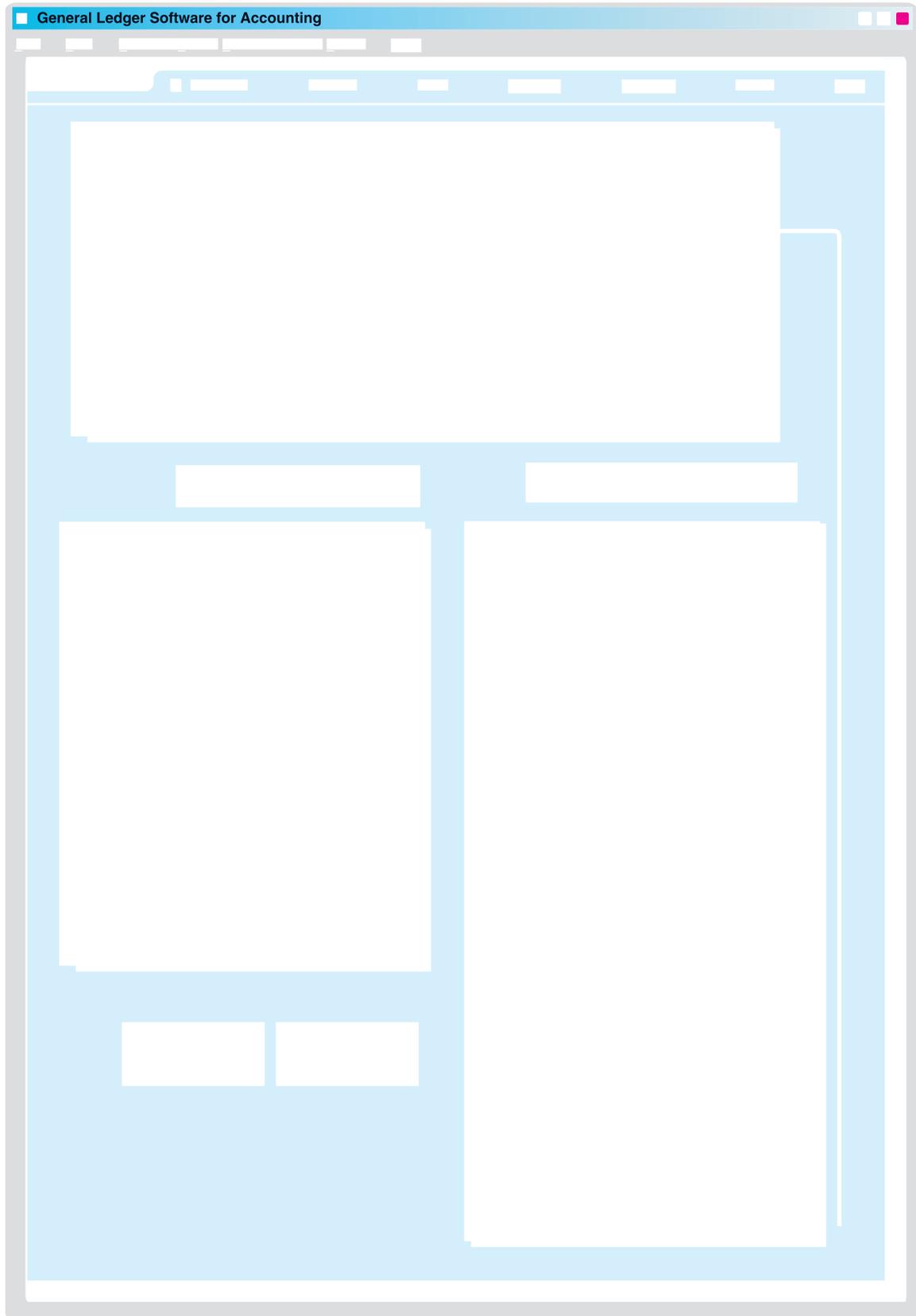
Proof of the equality of the postings from the purchases journal to both ledgers is shown in Illustration 7-14.

Postings to General Ledger		Credit Postings to Accounts Payable Ledger	
Merchandise Inventory (debit)	<u>\$63,900</u>	Eaton and Howe Inc.	\$19,800
	↕	Fabor and Son	15,600
	↕	Jasper Manufacturing Inc.	28,500
Accounts Payable (credit)	<u>\$63,900</u>		<u>\$63,900</u>

Illustration 7-14
Proving the equality of the purchases journal



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journal in Illustration 7-16 are based on the following transactions for Karns Wholesale Supply.

- May 1 Issued check No. 101 for \$1,200 for the annual premium on a fire insurance policy.
- 3 Issued check No. 102 for \$100 in payment of freight when terms were FOB shipping point.
- 8 Issued check No. 103 for \$4,400 for the purchase of merchandise.
- 10 Sent check No. 104 for \$10,780 to Jasper Manufacturing Inc. in payment of May 6 invoice for \$11,000 less a 2% discount.
- 19 Mailed check No. 105 for \$6,984 to Eaton and Howe Inc. in payment of May 10 invoice for \$7,200 less a 3% discount.
- 23 Sent check No. 106 for \$6,831 to Fabor and Son in payment of May 14 invoice for \$6,900 less a 1% discount.
- 28 Sent check No. 107 for \$17,150 to Jasper Manufacturing Inc. in payment of May 19 invoice for \$17,500 less a 2% discount.
- 30 Issued check No. 108 for \$500 to D. A. Karns as a cash withdrawal for personal use.

Note that whenever Karns enters an amount in the Other Accounts column, it must identify a specific general ledger account in the Account Debited column. The entries for checks No. 101, 102, 103, and 108 illustrate this situation. Similarly, Karns must identify a subsidiary account in the Account Debited column whenever it enters an amount in the Accounts Payable column. See, for example, the entry for check No. 104.

After Karns journalizes the cash payments journal, it totals the columns. The totals are then balanced to prove the equality of debits and credits.

POSTING THE CASH PAYMENTS JOURNAL

The procedures for posting the cash payments journal are similar to those for the cash receipts journal. Karns posts the amounts recorded in the Accounts Payable column individually to the subsidiary ledger and in total to the control account. It posts Merchandise Inventory and Cash only in total at the end of the month. Transactions in the Other Accounts column are posted individually to the appropriate account(s) affected. The company does not post totals for the Other Accounts column.

Illustration 7-16 shows the posting of the cash payments journal. Note that Karns uses the symbol **CP** as the posting reference. After postings are completed, the company proves the equality of the debit and credit balances in the general ledger. In addition, the control account balances should agree with the subsidiary ledger total balance. Illustration 7-17 shows the agreement of these balances.

Accounts Payable Subsidiary Ledger		General Ledger	
Eaton and Howe Inc.	\$12,600	<u>Debits</u>	
Fabor and Son	8,700	Cash	\$ 5,824
	<u>\$21,300</u>	Accounts Receivable	51,180
		Merchandise Inventory	2,425
		Prepaid Insurance	1,200
		D. A. Karns, Drawing	500
		Sales Discounts	781
		Cost of Goods Sold	65,120
			<u>\$127,030</u>
		<u>Credits</u>	
		Notes Payable	\$ 6,000
		Accounts Payable	21,300
		D. A. Karns, Capital	5,000
		Sales	94,730
			<u>\$127,030</u>

Illustration 7-17
Proving the ledgers after postings from the sales, cash receipts, purchases, and cash payments journals

Effects of Special Journals on the General Journal

Special journals for sales, purchases, and cash substantially reduce the number of entries that companies make in the general journal. **Only transactions that cannot be entered in a special journal are recorded in the general journal.** For example, a company may use the general journal to record such transactions as granting of credit to a customer for a sales return or allowance, granting of credit from a supplier for purchases returned, acceptance of a note receivable from a customer, and purchase of equipment by issuing a note payable. Also, **correcting, adjusting, and closing entries are made in the general journal.**

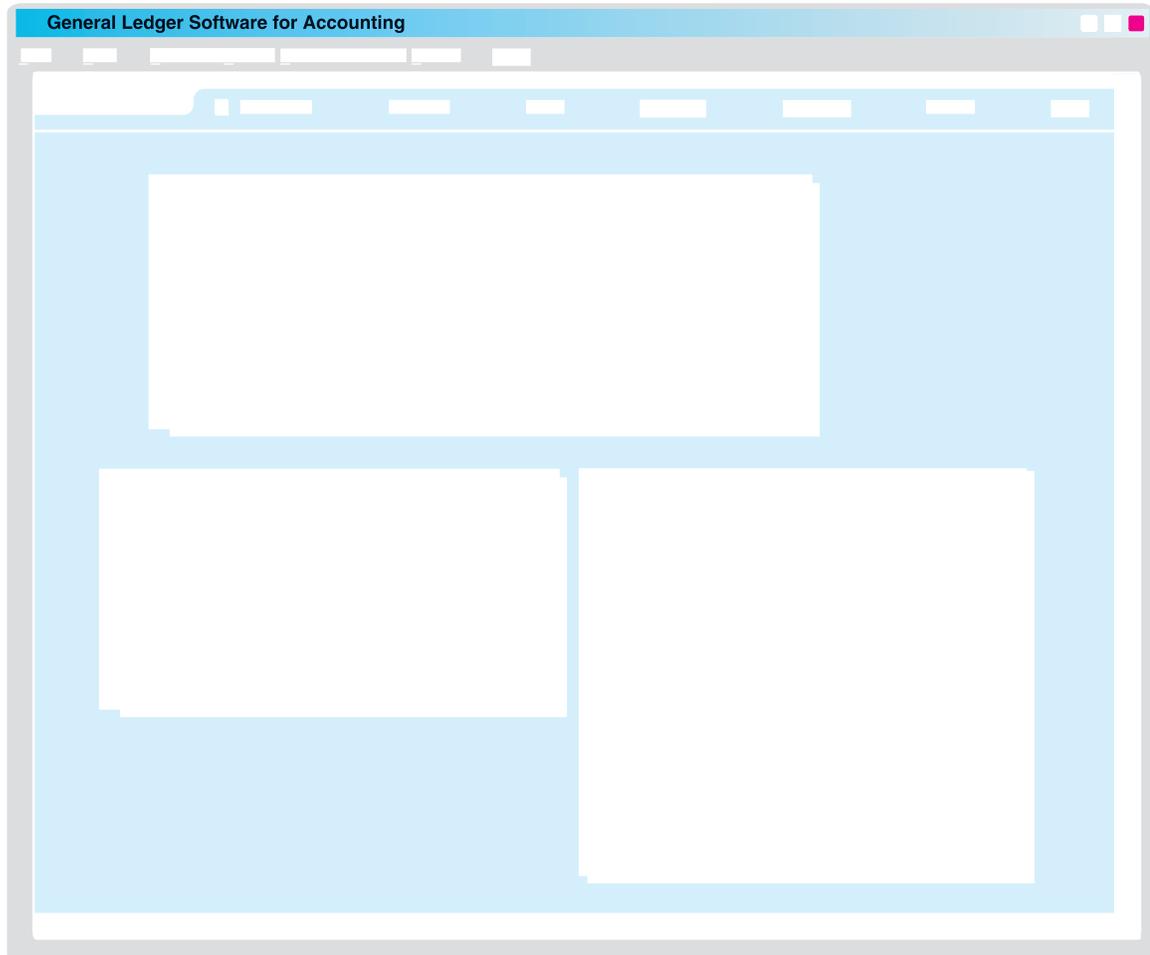
The general journal has columns for date, account title and explanation, reference, and debit and credit amounts. When control and subsidiary accounts are not involved, the procedures for journalizing and posting of transactions are the same as those described in earlier chapters. When control and subsidiary accounts *are* involved, companies make two changes from the earlier procedures:

1. In **journalizing**, they identify both the control and the subsidiary accounts.
2. In **posting**, there must be a **dual posting**: once to the control account and once to the subsidiary account.

To illustrate, assume that on May 31, Karns Wholesale Supply returns \$500 of merchandise for credit to Fabor and Son. Illustration 7-18 shows the entry in the general journal and the posting of the entry. Note that if Karns receives cash instead of credit on this return, then it would record the transaction in the cash receipts journal.

Illustration 7-18

Journalizing and posting the general journal



Note that the general journal indicates two accounts (Accounts Payable, and Fabor and Son) for the debit, and two postings (“201/✓”) in the reference column. One debit is posted to the control account and another debit to the creditor’s account in the subsidiary ledger.

DO IT!

Swisher Company had the following transactions during March.

1. Collected cash on account from Oakland Company.
2. Purchased equipment by signing a note payable.
3. Sold merchandise on account.
4. Purchased merchandise on account.
5. Paid \$2,400 for a 2-year insurance policy.

Identify the journal in which each of the transactions above is recorded.

Solution

- | | |
|--|-----------------------|
| 1. Collected cash on account from Oakland Company. | Cash receipts journal |
| 2. Purchased equipment by signing a note payable. | General journal |
| 3. Sold merchandise on account. | Sales journal |
| 4. Purchased merchandise on account. | Purchases journal |
| 5. Paid \$2,400 for a 2-year insurance policy. | Cash payments journal |

Related exercise material: BE7-6, BE7-7, BE7-8, BE7-9, E7-6, E7-7, E7-8, E7-10, and **DO IT!** 7-2.



SPECIAL JOURNALS

action plan

- ✓ Determine if the transaction involves the receipt of cash (cash receipts journal) or the payment of cash (cash payments journal).
- ✓ Determine if the transaction is a sale of merchandise on account (sales journal) or a purchase of merchandise on account (purchases journal).
- ✓ All other transactions are recorded in the general journal.

Comprehensive DO IT!



Cassandra Wilson Company uses a six-column cash receipts journal with the following columns:

- | | |
|---------------------------|------------------------------|
| Cash (Dr.) | Other Accounts (Cr.) |
| Sales Discounts (Dr.) | Cost of Goods Sold (Dr.) and |
| Accounts Receivable (Cr.) | Merchandise Inventory (Cr.) |
| Sales (Cr.) | |

Cash receipts transactions for the month of July 2010 are as follows.

- | | | |
|------|----|---|
| July | 3 | Cash sales total \$5,800 (cost, \$3,480). |
| | 5 | Received a check for \$6,370 from Jeltz Company in payment of an invoice dated June 26 for \$6,500, terms 2/10, n/30. |
| | 9 | Cassandra Wilson, the proprietor, made an additional investment of \$5,000 in cash in the business. |
| | 10 | Cash sales total \$12,519 (cost, \$7,511). |
| | 12 | Received a check for \$7,275 from R. Eliot & Co. in payment of a \$7,500 invoice dated July 3, terms 3/10, n/30. |
| | 15 | Received a customer advance of \$700 cash for future sales. |
| | 20 | Cash sales total \$15,472 (cost, \$9,283). |
| | 22 | Received a check for \$5,880 from Beck Company in payment of \$6,000 invoice dated July 13, terms 2/10, n/30. |
| | 29 | Cash sales total \$17,660 (cost, \$10,596). |
| | 31 | Received cash of \$200 on interest earned for July. |

action plan

- ✓ Record all cash receipts in the cash receipts journal.
- ✓ The “account credited” indicates items posted individually to the subsidiary ledger or to the general ledger.
- ✓ Record cash sales in the cash receipts journal—not in the sales journal.
- ✓ The total debits must equal the total credits.

Instructions

- (a) Journalize the transactions in the cash receipts journal.
- (b) Contrast the posting of the Accounts Receivable and Other Accounts columns.

Solution to Comprehensive DO IT!

(a) **CASSANDRA WILSON COMPANY**
Cash Receipts Journal CR1

Date	Account Credited	Ref.	Cash Dr.	Sales Discounts Dr.	Accounts Receivable Cr.	Sales Cr.	Other Accounts Cr.	Cost of Goods Sold Dr. Mdse. Inv. Cr.
2010								
7/3			5,800			5,800		3,480
5	Jeltz Company		6,370	130	6,500			
9	C. Wilson, Capital		5,000				5,000	
10			12,519			12,519		7,511
12	R. Eliot & Co.		7,275	225	7,500			
15	Unearned Revenue		700				700	
20			15,472			15,472		9,283
22	Beck Company		5,880	120	6,000			
29			17,660			17,660		10,596
31	Interest Revenue		200				200	
			<u>76,876</u>	<u>475</u>	<u>20,000</u>	<u>51,451</u>	<u>5,900</u>	<u>30,870</u>

- (b) The Accounts Receivable column total is posted as a credit to Accounts Receivable. The individual amounts are credited to the customers' accounts identified in the Account Credited column, which are maintained in the accounts receivable subsidiary ledger. The amounts in the Other Accounts column are posted individually. They are credited to the account titles identified in the Account Credited column.



SUMMARY OF STUDY OBJECTIVES



- 1 **Identify the basic concepts of an accounting information system.** The basic principles in developing an accounting information system are cost effectiveness, useful output, and flexibility. Most companies use a computerized accounting system. Smaller companies use entry-level software such as QuickBooks or Peachtree. Larger companies use custom-made software packages which often integrate all aspects of the organization.
- 2 **Describe the nature and purpose of a subsidiary ledger.** A subsidiary ledger is a group of accounts with a common characteristic. It facilitates the recording process by freeing the general ledger from details of individual balances.
- 3 **Explain how companies use special journals in journalizing.** Companies use special journals to group similar types of transactions. In a special journal, generally only one line is used to record a complete transaction.
- 4 **Indicate how companies post a multi-column journal.** In posting a multi-column journal:
 - (a) Companies post all column totals except for the Other Accounts column once at the end of the month to the account title specified in the column heading.
 - (b) Companies do not post the total of the Other Accounts column. Instead, the individual amounts comprising the total are posted separately to the general ledger accounts specified in the Account Credited (Debited) column.
 - (c) The individual amounts in a column posted in total to a control account are posted daily to the subsidiary ledger accounts specified in the Account Credited (Debited) column.



GLOSSARY



Accounting information system A system that collects and processes transaction data, and communicates financial information to decision makers. (p. 302).

Accounts payable (creditors') subsidiary ledger A subsidiary ledger that collects transaction data of individual creditors. (p. 305).

Accounts receivable (customers') subsidiary ledger A subsidiary ledger that collects transaction data of individual customers. (p. 305).

Cash payments (disbursements) journal A special journal that records all cash paid. (p. 317).

Cash receipts journal A special journal that records all cash received. (p. 311).

Control account An account in the general ledger that summarizes subsidiary ledger. (p. 305).

Manual accounting system A system in which someone performs each of the steps in the accounting cycle by hand. (p. 305).

Purchases journal A special journal that records all purchases of merchandise on account. (p. 315).

Sales journal A special journal that records all sales of merchandise on account. (p. 309).

Special journal A journal that records similar types of transactions, such as all credit sales. (p. 308).

Subsidiary ledger A group of accounts with a common characteristic. (p. 305).

SELF-STUDY QUESTIONS



Answers are at the end of the chapter.

- (SO 1) 1. The basic principles of an accounting information system include all of the following *except*:
- cost effectiveness.
 - flexibility.
 - useful output.
 - periodicity.
- (SO 1) 2. Which of the following is *not* an advantage of computerized accounting systems?
- Data is entered only once in computerized accounting systems.
 - Computerized accounting systems provide up-to-date information.
 - Computerized accounting systems eliminate entering of transaction information.
 - Computerized accounting systems eliminate many errors resulting from human intervention.
- (SO 2) 3. Which of the following is *incorrect* concerning subsidiary ledgers?
- The purchases ledger is a common subsidiary ledger for creditor accounts.
 - The accounts receivable ledger is a subsidiary ledger.
 - A subsidiary ledger is a group of accounts with a common characteristic.
 - An advantage of the subsidiary ledger is that it permits a division of labor in posting.
- (SO 2) 4. Two common subsidiary ledgers are:
- accounts receivable and cash receipts.
 - accounts payable and cash payments.
 - accounts receivable and accounts payable.
 - sales and cost of goods sold.
- (SO 2) 5. At the beginning of the month, the accounts receivable subsidiary ledger showed balances for Apple Company \$5,000 and Berry Company \$7,000. During the month,

credit sales were made to Apple \$6,000, Berry \$4,500, and Cantaloupe \$8,500. Cash was collected on account from Berry \$11,500 and Cantaloupe \$3,000. At the end of the month, the control account Accounts Receivable in the general ledger should have a balance of:

- \$11,000.
- \$12,000.
- \$16,500.
- \$31,000.

6. A sales journal will be used for: (SO 3)

	<u>Credit Sales</u>	<u>Cash Sales</u>	<u>Sales Discounts</u>
a.	no	yes	yes
b.	yes	no	yes
c.	yes	no	no
d.	yes	yes	no

7. A purchase of equipment on account is recorded in the: (SO 3)

- cash receipts journal.
- purchases journal.
- cash payments journal.
- general journal.

8. A purchase of equipment using cash is recorded in the: (SO 3)

- cash receipts journal.
- purchases journal.
- cash payments journal.
- general journal.

9. Which of the following statements is *correct*? (SO 3, 4)

- The sales discount column is included in the cash receipts journal.
- The purchases journal records all purchases of merchandise whether for cash or on account.
- The cash receipts journal records sales on account.
- Merchandise returned by the buyer is recorded by the seller in the purchases journal.

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- (SO 4) 10. Dotel Company's cash receipts journal includes an Accounts Receivable column and an Other Accounts column. At the end of the month, these columns are posted to the general ledger as:
- | <u>Accounts Receivable</u> | <u>Other Accounts</u> |
|----------------------------|-----------------------|
| a. a column total | a column total |
| b. individual amounts | a column total |
| c. individual amounts | individual amounts |
| d. a column total | individual amounts |
- (SO 4) 11. Which of the following is *incorrect* concerning the posting of the cash receipts journal?
- The total of the Other Accounts column is not posted.
 - All column totals except the total for the Other Accounts column are posted once at the end of the month to the account title(s) specified in the column heading.
 - The totals of all columns are posted daily to the accounts specified in the column heading.
 - The individual amounts in a column posted in total to a control account are posted daily to the subsidiary ledger account specified in the Account Credited column.
- (SO 4) 12. Postings from the purchases journal to the subsidiary ledger are generally made:
- yearly.
 - monthly.
 - weekly.
 - daily.
13. Which statement is *incorrect* regarding the general journal? (SO 3)
- Only transactions that cannot be entered in a special journal are recorded in the general journal.
 - Dual postings are always required in the general journal.
 - The general journal may be used to record acceptance of a note receivable in payment of an account receivable.
 - Correcting, adjusting, and closing entries are made in the general journal.
14. When companies use special journals: (SO 3)
- they record all purchase transactions in the purchases journal.
 - they record all cash received, except from cash sales, in the cash receipts journal.
 - they record all cash disbursements in the cash payments journal.
 - a general journal is not necessary.
15. If a customer returns goods for credit, the selling company (SO 3) normally makes an entry in the:
- cash payments journal.
 - sales journal.
 - general journal.
 - cash receipts journal.

Go to the book's companion website, www.wiley.com/college/weygandt, for Additional Self-Study questions.



QUESTIONS

- (a) What is an accounting information system? (b) "An accounting information system applies only to a manual system." Do you agree? Explain.
- Certain principles should be followed in the development of an accounting information system. Identify and explain each of the principles.
- What are common features of computerized accounting packages beyond recording transactions and preparing financial statements?
- How does an enterprise resource planning (ERP) system differ from an entry-level computerized accounting system?
- What are the advantages of using subsidiary ledgers?
- (a) When do companies normally post to (1) the subsidiary accounts and (2) the general ledger control accounts? (b) Describe the relationship between a control account and a subsidiary ledger.
- Identify and explain the four special journals discussed in the chapter. List an advantage of using each of these journals rather than using only a general journal.
- Thogmartin Company uses special journals. It recorded in a sales journal a sale made on account to R. Peters for \$435. A few days later, R. Peters returns \$70 worth of merchandise for credit. Where should Thogmartin Company record the sales return? Why?
- A \$500 purchase of merchandise on account from Lore Company was properly recorded in the purchases journal. When posted, however, the amount recorded in the subsidiary ledger was \$50. How might this error be discovered?
- Why would special journals used in different businesses not be identical in format? What type of business would maintain a cash receipts journal but not include a column for accounts receivable?
- The cash and the accounts receivable columns in the cash receipts journal were mistakenly overadded by \$4,000 at the end of the month. (a) Will the customers' ledger agree with the Accounts Receivable control account? (b) Assuming no other errors, will the trial balance totals be equal?
- One column total of a special journal is posted at month-end to only two general ledger accounts. One of these two accounts is Accounts Receivable. What is the name of this special journal? What is the other general ledger account to which that same month-end total is posted?
- In what journal would the following transactions be recorded? (Assume that a two-column sales journal and a single-column purchases journal are used.)
 - Recording of depreciation expense for the year.
 - Credit given to a customer for merchandise purchased on credit and returned.
 - Sales of merchandise for cash.
 - Sales of merchandise on account.
 - Collection of cash on account from a customer.
 - Purchase of office supplies on account.

14. In what journal would the following transactions be recorded? (Assume that a two-column sales journal and a single-column purchases journal are used.)
 - (a) Cash received from signing a note payable.
 - (b) Investment of cash by the owner of the business.
 - (c) Closing of the expense accounts at the end of the year.
 - (d) Purchase of merchandise on account.
 - (e) Credit received for merchandise purchased and returned to supplier.
 - (f) Payment of cash on account due a supplier.
15. What transactions might be included in a multiple-column purchases journal that would not be included in a single-column purchases journal?
16. Give an example of a transaction in the general journal that causes an entry to be posted twice (i.e., to two accounts), one in the general ledger, the other in the subsidiary ledger. Does this affect the debit/credit equality of the general ledger?
17. Give some examples of appropriate general journal transactions for an organization using special journals.

BRIEF EXERCISES



BE7-1 Indicate whether each of the following statements is true or false.

1. When designing an accounting system, we need to think about the needs and knowledge of both the top managers and various other users.
2. When the environment changes as a result of technological advances, increased competition, or government regulation, an accounting system does not have to be sufficiently flexible to meet the changes in order to save money.
3. In developing an accounting system, cost is relevant. The benefits obtained from the information disseminated must outweigh the cost of providing it.

Identify basic concepts of an accounting information system.

(SO 1)

BE7-2 Here is a list of words or phrases related to computerized accounting systems.

1. Entry-level software.
2. Enterprise resource planning systems.
3. Network-compatible.
4. Audit trail.
5. Internal control.

Identify basic concepts of an accounting information system.

(SO 1)

Instructions

Match each word or phrase with the best description of it.

- _____ (a) Allows multiple users to access the system at the same time.
- _____ (b) Enables the tracking of all transactions.
- _____ (c) Identifies suspicious transactions or likely mistakes such as wrong account numbers or duplicate transactions.
- _____ (d) Large-scale computer systems that integrate all aspects of the organization including accounting, sales, human resource management, and manufacturing.
- _____ (e) System for companies with revenues of less than \$5 million and up to 20 employees.

BE7-3 Beka Borke has prepared the following list of statements about accounting information systems.

1. The accounting information system includes each of the steps of the accounting cycle, the documents that provide evidence of transactions that have occurred, and the accounting records.
2. The benefits obtained from information provided by the accounting information system need not outweigh the cost of providing that information.
3. Designers of accounting systems must consider the needs and knowledge of various users.
4. If an accounting information system is cost-effective and provides useful output, it does not need to be flexible.

Identify basic concepts of an accounting information system.

(SO 1)

Instructions

Identify each statement as true or false. If false, indicate how to correct the statement.

BE7-4 Presented below is information related to Kienholz Company for its first month of operations. Identify the balances that appear in the accounts receivable subsidiary ledger and the accounts receivable balance that appears in the general ledger at the end of January.

Identify subsidiary ledger balances.

(SO 2)

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Credit Sales			Cash Collections		
Jan. 7	Agler Co.	\$10,000	Jan. 17	Agler Co.	\$7,000
15	Barto Co.	6,000	24	Barto Co.	4,000
23	Maris Co.	9,000	29	Maris Co.	9,000

Identify subsidiary ledger accounts.

(SO 2)

BE7-5 Identify in what ledger (general or subsidiary) each of the following accounts is shown.

- | | |
|-----------------------------|-----------------------------|
| 1. Rent Expense | 3. Notes Payable |
| 2. Accounts Receivable—Char | 4. Accounts Payable—Thebeau |

Identify special journals.

(SO 3)

BE7-6 Identify the journal in which each of the following transactions is recorded.

- | | |
|-----------------------------|---|
| 1. Cash sales | 4. Credit sales |
| 2. Owner withdrawal of cash | 5. Purchase of merchandise on account |
| 3. Cash purchase of land | 6. Receipt of cash for services performed |

Identify entries to cash receipts journal.

(SO 3)

BE7-7 Indicate whether each of the following debits and credits is included in the cash receipts journal. (Use “Yes” or “No” to answer this question.)

1. Debit to Sales
2. Credit to Merchandise Inventory
3. Credit to Accounts Receivable
4. Debit to Accounts Payable

Identify transactions for special journals.

(SO 3)

BE7-8 Galindo Co. uses special journals and a general journal. Identify the journal in which each of the following transactions is recorded.

- (a) Purchased equipment on account.
- (b) Purchased merchandise on account.
- (c) Paid utility expense in cash.
- (d) Sold merchandise on account.

Identify transactions for special journals.

(SO 3)

BE7-9 Identify the special journal(s) in which the following column headings appear.

- | | |
|----------------------------|------------------------------|
| 1. Sales Discounts Dr. | 4. Sales Cr. |
| 2. Accounts Receivable Cr. | 5. Merchandise Inventory Dr. |
| 3. Cash Dr. | |

Indicate postings to cash receipts journal.

(SO 4)

BE7-10 Kidwell Computer Components Inc. uses a multi-column cash receipts journal. Indicate which column(s) is/are posted only in total, only daily, or both in total and daily.

- | | |
|------------------------|-------------------|
| 1. Accounts Receivable | 3. Cash |
| 2. Sales Discounts | 4. Other Accounts |

DO IT! REVIEW



Determine subsidiary and general ledger balances.

(SO 2)

DO IT! 7-1 Presented below is information related to City Company for its first month of operations. Determine the balances that appear in the accounts payable subsidiary ledger. What Accounts Payable balance appears in the general ledger at the end of January?

Credit Purchases		Cash Paid			
Jan. 6	Eli Company	\$ 9,000	Jan. 11	Eli Company	\$ 6,500
Jan. 10	Teddy Company	12,000	Jan. 16	Teddy Company	12,000
Jan. 23	U-2 Company	10,000	Jan. 29	U-2 Company	7,700

Identify special journals.

(SO 3)

DO IT! 7-2 Nick Company had the following transactions during April.

1. Sold merchandise on account.
2. Purchased merchandise on account.
3. Collected cash from a sale to Athletic Company.
4. Recorded accrued interest on a note payable.
5. Paid \$2,000 for supplies.

Identify the journal in which each of the transactions above is recorded.

EXERCISES



E7-1 Donahue Company uses both special journals and a general journal as described in this chapter. On June 30, after all monthly postings had been completed, the Accounts Receivable control account in the general ledger had a debit balance of \$320,000; the Accounts Payable control account had a credit balance of \$77,000.

The July transactions recorded in the special journals are summarized below. No entries affecting accounts receivable and accounts payable were recorded in the general journal for July.

Sales journal	Total sales \$161,400
Purchases journal	Total purchases \$56,400
Cash receipts journal	Accounts receivable column total \$131,000
Cash payments journal	Accounts payable column total \$47,500

Determine control account balances, and explain posting of special journals.

(SO 2, 4)

Instructions

- (a) What is the balance of the Accounts Receivable control account after the monthly postings on July 31?
- (b) What is the balance of the Accounts Payable control account after the monthly postings on July 31?
- (c) To what account(s) is the column total of \$161,400 in the sales journal posted?
- (d) To what account(s) is the accounts receivable column total of \$131,000 in the cash receipts journal posted?

E7-2 Presented below is the subsidiary accounts receivable account of Jeremy Dody.

Explain postings to subsidiary ledger.

(SO 2)

Date	Ref.	Debit	Credit	Balance
2010				
Sept. 2	S31	61,000		61,000
9	G4		14,000	47,000
27	CR8		47,000	—

Instructions



Write a memo to Andrea Barden, chief financial officer, that explains each transaction.

E7-3 On September 1 the balance of the Accounts Receivable control account in the general ledger of Seaver Company was \$10,960. The customers' subsidiary ledger contained account balances as follows: Ruiz \$1,440, Kingston \$2,640, Bannister \$2,060, Crampton \$4,820. At the end of September the various journals contained the following information.

Post various journals to control and subsidiary accounts.

(SO 2, 4)

Sales journal: Sales to Crampton \$800; to Ruiz \$1,260; to Iman \$1,330; to Bannister \$1,100.

Cash receipts journal: Cash received from Bannister \$1,310; from Crampton \$2,300; from Iman \$380; from Kingston \$1,800; from Ruiz \$1,240.

General journal: An allowance is granted to Crampton \$220.

Instructions

- (a) Set up control and subsidiary accounts and enter the beginning balances. Do not construct the journals.
- (b) Post the various journals. Post the items as individual items or as totals, whichever would be the appropriate procedure. (No sales discounts given.)
- (c) Prepare a list of customers and prove the agreement of the controlling account with the subsidiary ledger at September 30, 2010.

E7-4 Yu Suzuki Company has a balance in its Accounts Receivable control account of \$11,000 on January 1, 2010. The subsidiary ledger contains three accounts: Smith Company, balance \$4,000; Green Company, balance \$2,500; and Koyan Company. During January, the following receivable-related transactions occurred.

Determine control and subsidiary ledger balances for accounts receivable.

(SO 2)

	<u>Credit Sales</u>	<u>Collections</u>	<u>Returns</u>
Smith Company	\$9,000	\$8,000	\$ -0-
Green Company	7,000	2,500	3,000
Koyan Company	8,500	9,000	-0-

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Instructions

- What is the January 1 balance in the Koyan Company subsidiary account?
- What is the January 31 balance in the control account?
- Compute the balances in the subsidiary accounts at the end of the month.
- Which January transaction would not be recorded in a special journal?

Determine control and subsidiary ledger balances for accounts payable.

(SO 2)

E7-5 Nobo Uematsu Company has a balance in its Accounts Payable control account of \$8,250 on January 1, 2010. The subsidiary ledger contains three accounts: Jones Company, balance \$3,000; Brown Company, balance \$1,875; and Aatski Company. During January, the following payable-related transactions occurred.

	<u>Purchases</u>	<u>Payments</u>	<u>Returns</u>
Jones Company	\$6,750	\$6,000	\$ -0-
Brown Company	5,250	1,875	2,250
Aatski Company	6,375	6,750	-0-

Instructions

- What is the January 1 balance in the Aatski Company subsidiary account?
- What is the January 31 balance in the control account?
- Compute the balances in the subsidiary accounts at the end of the month.
- Which January transaction would not be recorded in a special journal?

Record transactions in sales and purchases journal.

(SO 2, 3)

E7-6 Montalvo Company uses special journals and a general journal. The following transactions occurred during September 2010.

- Sept. 2 Sold merchandise on account to T. Hossfeld, invoice no. 101, \$720, terms n/30. The cost of the merchandise sold was \$420.
- 10 Purchased merchandise on account from L. Rincon \$600, terms 2/10, n/30.
- 12 Purchased office equipment on account from R. Press \$6,500.
- 21 Sold merchandise on account to P. Lowther, invoice no. 102 for \$800, terms 2/10, n/30. The cost of the merchandise sold was \$480.
- 25 Purchased merchandise on account from W. Barone \$860, terms n/30.
- 27 Sold merchandise to S. Miller for \$700 cash. The cost of the merchandise sold was \$400.

Instructions

- Prepare a sales journal (see Illustration 7-7) and a single-column purchase journal (see Illustration 7-13). (Use page 1 for each journal.)
- Record the transaction(s) for September that should be journalized in the sales journal and the purchases journal.

Record transactions in cash receipts and cash payments journal.

(SO 2, 3)

E7-7 Pherigo Co. uses special journals and a general journal. The following transactions occurred during May 2010.

- May 1 I. Pherigo invested \$50,000 cash in the business.
- 2 Sold merchandise to B. Sherrick for \$6,300 cash. The cost of the merchandise sold was \$4,200.
- 3 Purchased merchandise for \$7,200 from J. DeLeon using check no. 101.
- 14 Paid salary to H. Potter \$700 by issuing check no. 102.
- 16 Sold merchandise on account to K. Kimbell for \$900, terms n/30. The cost of the merchandise sold was \$630.
- 22 A check of \$9,000 is received from M. Moody in full for invoice 101; no discount given.

Instructions

- Prepare a multiple-column cash receipts journal (see Illustration 7-9) and a multiple-column cash payments journal (see Illustration 7-16). (Use page 1 for each journal.)
- Record the transaction(s) for May that should be journalized in the cash receipts journal and cash payments journal.

Explain journalizing in cash journals.

(SO 3)

E7-8 Wick Company uses the columnar cash journals illustrated in the textbook. In April, the following selected cash transactions occurred.

- Made a refund to a customer as an allowance for damaged goods.
- Received collection from customer within the 3% discount period.
- Purchased merchandise for cash.
- Paid a creditor within the 3% discount period.
- Received collection from customer after the 3% discount period had expired.

6. Paid freight on merchandise purchased.
7. Paid cash for office equipment.
8. Received cash refund from supplier for merchandise returned.
9. Withdrew cash for personal use of owner.
10. Made cash sales.

Instructions

Indicate (a) the journal, and (b) the columns in the journal that should be used in recording each transaction.

E7-9 Velasquez Company has the following selected transactions during March.

- Mar. 2 Purchased equipment costing \$9,400 from Chang Company on account.
- 5 Received credit of \$410 from Lyden Company for merchandise damaged in shipment to Velasquez.
- 7 Issued credit of \$400 to Higley Company for merchandise the customer returned. The returned merchandise had a cost of \$260.

Journalize transactions in general journal and explain postings.
(SO 2, 4)

Velasquez Company uses a one-column purchases journal, a sales journal, the columnar cash journals used in the text, and a general journal.

Instructions

- (a) Journalize the transactions in the general journal.
- (b)  In a brief memo to the president of Velasquez Company, explain the postings to the control and subsidiary accounts from each type of journal.

E7-10 Below are some typical transactions incurred by Kwun Company.

1. Payment of creditors on account.
2. Return of merchandise sold for credit.
3. Collection on account from customers.
4. Sale of land for cash.
5. Sale of merchandise on account.
6. Sale of merchandise for cash.
7. Received credit for merchandise purchased on credit.
8. Sales discount taken on goods sold.
9. Payment of employee wages.
10. Income summary closed to owner's capital.
11. Depreciation on building.
12. Purchase of office supplies for cash.
13. Purchase of merchandise on account.

Indicate journalizing in special journals.
(SO 3)

Instructions

For each transaction, indicate whether it would normally be recorded in a cash receipts journal, cash payments journal, sales journal, single-column purchases journal, or general journal.

E7-11 The general ledger of Sanchez Company contained the following Accounts Payable control account (in T-account form). Also shown is the related subsidiary ledger.

Explain posting to control account and subsidiary ledger.
(SO 2, 4)

GENERAL LEDGER

Accounts Payable			
Feb. 15	General journal	1,400	Feb. 1 Balance
28	?	?	5 General journal
			11 General journal
			28 Purchases
			Feb. 28 Balance
			26,025
			265
			550
			13,400
			9,500

ACCOUNTS PAYABLE LEDGER

Perez		Tebbetts	
	Feb. 28	Bal. 4,600	Feb. 28
			Bal. ?
Zerbe			
	Feb. 28	Bal. 2,300	

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Instructions

- (a) Indicate the missing posting reference and amount in the control account, and the missing ending balance in the subsidiary ledger.
- (b) Indicate the amounts in the control account that were dual-posted (i.e., posted to the control account and the subsidiary accounts).

Prepare purchases and general journals.

E7-12 Selected accounts from the ledgers of Lockhart Company at July 31 showed the following.

(SO 2, 3)

GENERAL LEDGER

Store Equipment					No. 153
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		G1	3,900		3,900

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		G1		3,900	3,900
15		G1		400	4,300
18		G1	100		4,200
25		G1	200		4,000
31		P1		8,300	12,300

Merchandise Inventory					No. 120
Date	Explanation	Ref.	Debit	Credit	Balance
July 15		G1	400		400
18		G1		100	300
25		G1		200	100
31		P1	8,300		8,400

ACCOUNTS PAYABLE LEDGER

Albin Equipment Co.					
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		G1		3,900	3,900

Drago Co.					
Date	Explanation	Ref.	Debit	Credit	Balance
July 14		P1		1,100	1,100
25		G1	200		900

Brian Co.					
Date	Explanation	Ref.	Debit	Credit	Balance
July 3		P1		2,400	2,400
20		P1		700	3,100

Erik Co.					
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		P1		500	500
21		P1		600	1,100

Chacon Corp					
Date	Explanation	Ref.	Debit	Credit	Balance
July 17		P1		1,400	1,400
18		G1	100		1,300
29		P1		1,600	2,900

Heinen Inc.					
Date	Explanation	Ref.	Debit	Credit	Balance
July 15		G1		400	400

Instructions

From the data prepare:

- (a) the single-column purchases journal for July.
- (b) the general journal entries for July.

Determine correct posting amount to control account.

(SO 4)

E7-13 Kansas Products uses both special journals and a general journal as described in this chapter. Kansas also posts customers' accounts in the accounts receivable subsidiary ledger. The postings for the most recent month are included in the subsidiary T accounts below.

Bargo			Leary		
Bal.	340	250	Bal.	150	150
	200			240	

Carol			Paul		
Bal.	-0-	145	Bal.	120	120
	145			190	
				150	

Instructions

Determine the correct amount of the end-of-month posting from the sales journal to the Accounts Receivable control account.

E7-14 Selected account balances for Matisyahu Company at January 1, 2010, are presented below.

Accounts Payable	\$14,000
Accounts Receivable	22,000
Cash	17,000
Inventory	13,500

Compute balances in various accounts.

(SO 4)

Matisyahu's sales journal for January shows a total of \$100,000 in the selling price column, and its one-column purchases journal for January shows a total of \$72,000.

The column totals in Matisyahu's cash receipts journal are: Cash Dr. \$61,000; Sales Discounts Dr. \$1,100; Accounts Receivable Cr. \$45,000; Sales Cr. \$6,000; and Other Accounts Cr. \$11,100.

The column totals in Matisyahu's cash payments journal for January are: Cash Cr. \$55,000; Inventory Cr. \$1,000; Accounts Payable Dr. \$46,000; and Other Accounts Dr. \$10,000. Matisyahu's total cost of goods sold for January is \$63,600.

Accounts Payable, Accounts Receivable, Cash, Inventory, and Sales are not involved in the "Other Accounts" column in either the cash receipts or cash payments journal, and are not involved in any general journal entries.

Instructions

Compute the January 31 balance for Matisyahu in the following accounts.

- (a) Accounts Payable.
- (b) Accounts Receivable.
- (c) Cash.
- (d) Inventory.
- (e) Sales.

EXERCISES: SET B

Visit the book's companion website at www.wiley.com/college/veygandt, and choose the Student Companion site, to access Exercise Set B.



PROBLEMS: SET A

P7-1A Grider Company's chart of accounts includes the following selected accounts.

101 Cash	401 Sales
112 Accounts Receivable	414 Sales Discounts
120 Merchandise Inventory	505 Cost of Goods Sold
301 O. Grider, Capital	

Journalize transactions in cash receipts journal; post to control account and subsidiary ledger.

(SO 2, 3, 4)

On April 1 the accounts receivable ledger of Grider Company showed the following balances: Ogden \$1,550, Chelsea \$1,200, Eggleston Co. \$2,900, and Baez \$1,800. The April transactions involving the receipt of cash were as follows.

- Apr. 1 The owner, O. Grider, invested additional cash in the business \$7,200.
- 4 Received check for payment of account from Baez less 2% cash discount.
- 5 Received check for \$920 in payment of invoice no. 307 from Eggleston Co.
- 8 Made cash sales of merchandise totaling \$7,245. The cost of the merchandise sold was \$4,347.
- 10 Received check for \$600 in payment of invoice no. 309 from Ogden.
- 11 Received cash refund from a supplier for damaged merchandise \$740.
- 23 Received check for \$1,500 in payment of invoice no. 310 from Eggleston Co.
- 29 Received check for payment of account from Chelsea.



Instructions

- (a) Journalize the transactions above in a six-column cash receipts journal with columns for Cash Dr., Sales Discounts Dr., Accounts Receivable Cr., Sales Cr., Other Accounts Cr., and Cost of Goods Sold Dr./Merchandise Inventory Cr. Foot and crossfoot the journal.
- (b) Insert the beginning balances in the Accounts Receivable control and subsidiary accounts, and post the April transactions to these accounts.
- (c) Prove the agreement of the control account and subsidiary account balances.

(a) Balancing totals \$21,205

(c) Accounts Receivable \$1,430

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Journalize transactions in cash payments journal; post to control account and subsidiary ledgers.

(SO 2, 3, 4)



P7-2A Ming Company's chart of accounts includes the following selected accounts.

101 Cash	201 Accounts Payable
120 Merchandise Inventory	306 T. Ming, Drawing
130 Prepaid Insurance	505 Cost of Goods Sold
157 Equipment	

On October 1 the accounts payable ledger of Ming Company showed the following balances: Bovary Company \$2,700, Nyman Co. \$2,500, Pyron Co. \$1,800, and Sims Company \$3,700. The October transactions involving the payment of cash were as follows.

- Oct. 1 Purchased merchandise, check no. 63, \$300.
 3 Purchased equipment, check no. 64, \$800.
 5 Paid Bovary Company balance due of \$2,700, less 2% discount, check no. 65, \$2,646.
 10 Purchased merchandise, check no. 66, \$2,250.
 15 Paid Pyron Co. balance due of \$1,800, check no. 67.
 16 T. Ming, the owner, pays his personal insurance premium of \$400, check no. 68.
 19 Paid Nyman Co. in full for invoice no. 610, \$1,600 less 2% cash discount, check no. 69, \$1,568.
 29 Paid Sims Company in full for invoice no. 264, \$2,500, check no. 70.

Instructions

(a) Balancing totals \$12,350

- (a) Journalize the transactions above in a four-column cash payments journal with columns for Other Accounts Dr., Accounts Payable Dr., Merchandise Inventory Cr., and Cash Cr. Foot and crossfoot the journal.
 (b) Insert the beginning balances in the Accounts Payable control and subsidiary accounts, and post the October transactions to these accounts.
 (c) Prove the agreement of the control account and the subsidiary account balances.

(c) Accounts Payable \$2,100

Journalize transactions in multi-column purchases journal; post to the general and subsidiary ledgers.

(SO 2, 3, 4)



P7-3A The chart of accounts of Lopez Company includes the following selected accounts.

112 Accounts Receivable	401 Sales
120 Merchandise Inventory	412 Sales Returns and Allowances
126 Supplies	505 Cost of Goods Sold
157 Equipment	610 Advertising Expense
201 Accounts Payable	

In July the following selected transactions were completed. All purchases and sales were on account. The cost of all merchandise sold was 70% of the sales price.

- July 1 Purchased merchandise from Fritz Company \$8,000.
 2 Received freight bill from Wayward Shipping on Fritz purchase \$400.
 3 Made sales to Pinick Company \$1,300, and to Wayne Bros. \$1,500.
 5 Purchased merchandise from Moon Company \$3,200.
 8 Received credit on merchandise returned to Moon Company \$300.
 13 Purchased store supplies from Cress Supply \$720.
 15 Purchased merchandise from Fritz Company \$3,600 and from Anton Company \$3,300.
 16 Made sales to Sager Company \$3,450 and to Wayne Bros. \$1,570.
 18 Received bill for advertising from Lynda Advertisements \$600.
 21 Sales were made to Pinick Company \$310 and to Haddad Company \$2,800.
 22 Granted allowance to Pinick Company for merchandise damaged in shipment \$40.
 24 Purchased merchandise from Moon Company \$3,000.
 26 Purchased equipment from Cress Supply \$900.
 28 Received freight bill from Wayward Shipping on Moon purchase of July 24, \$380.
 30 Sales were made to Sager Company \$5,600.

Instructions

(a) Purchases journal—
 Accounts Payable \$24,100
 Sales column total \$16,530

- (a) Journalize the transactions above in a purchases journal, a sales journal, and a general journal. The purchases journal should have the following column headings: Date, Account Credited (Debited), Ref., Accounts Payable Cr., Merchandise Inventory Dr., and Other Accounts Dr.
 (b) Post to both the general and subsidiary ledger accounts. (Assume that all accounts have zero beginning balances.)
 (c) Prove the agreement of the control and subsidiary accounts.

(c) Accounts Receivable \$16,490
 Accounts Payable \$23,800

Journalize transactions in special journals.

(SO 2, 3, 4)



P7-4A Selected accounts from the chart of accounts of Boyden Company are shown below.

101 Cash	120 Merchandise Inventory
112 Accounts Receivable	126 Supplies

157 Equipment	414 Sales Discounts
201 Accounts Payable	505 Cost of Goods Sold
401 Sales	726 Salaries Expense
412 Sales Returns and Allowances	

The cost of all merchandise sold was 60% of the sales price. During January, Boyden completed the following transactions.

- Jan. 3 Purchased merchandise on account from Wortham Co. \$10,000.
- 4 Purchased supplies for cash \$80.
- 4 Sold merchandise on account to Milam \$5,250, invoice no. 371, terms 1/10, n/30.
- 5 Returned \$300 worth of damaged goods purchased on account from Wortham Co. on January 3.
- 6 Made cash sales for the week totaling \$3,150.
- 8 Purchased merchandise on account from Noyes Co. \$4,500.
- 9 Sold merchandise on account to Connor Corp. \$6,400, invoice no. 372, terms 1/10, n/30.
- 11 Purchased merchandise on account from Betz Co. \$3,700.
- 13 Paid in full Wortham Co. on account less a 2% discount.
- 13 Made cash sales for the week totaling \$6,260.
- 15 Received payment from Connor Corp. for invoice no. 372.
- 15 Paid semi-monthly salaries of \$14,300 to employees.
- 17 Received payment from Milam for invoice no. 371.
- 17 Sold merchandise on account to Bullock Co. \$1,200, invoice no. 373, terms 1/10, n/30.
- 19 Purchased equipment on account from Murphy Corp. \$5,500.
- 20 Cash sales for the week totaled \$3,200.
- 20 Paid in full Noyes Co. on account less a 2% discount.
- 23 Purchased merchandise on account from Wortham Co. \$7,800.
- 24 Purchased merchandise on account from Forgetta Corp. \$5,100.
- 27 Made cash sales for the week totaling \$4,230.
- 30 Received payment from Bullock Co. for invoice no. 373.
- 31 Paid semi-monthly salaries of \$13,200 to employees.
- 31 Sold merchandise on account to Milam \$9,330, invoice no. 374, terms 1/10, n/30.

Boyden Company uses the following journals.

1. Sales journal.
2. Single-column purchases journal.
3. Cash receipts journal with columns for Cash Dr., Sales Discounts Dr., Accounts Receivable Cr., Sales Cr., Other Accounts Cr., and Cost of Goods Sold Dr./Merchandise Inventory Cr.
4. Cash payments journal with columns for Other Accounts Dr., Accounts Payable Dr., Merchandise Inventory Cr., and Cash Cr.
5. General journal.

Instructions

Using the selected accounts provided:

- (a) Record the January transactions in the appropriate journal noted.
- (b) Foot and crossfoot all special journals.
- (c) Show how postings would be made by placing ledger account numbers and checkmarks as needed in the journals. (Actual posting to ledger accounts is not required.)

(a) Sales journal \$22,180
 Purchases journal \$31,100
 Cash receipts journal
 balancing total \$29,690
 Cash payments journal
 balancing total \$41,780

P7-5A Presented below are the purchases and cash payments journals for Reyes Co. for its first month of operations.

Journalize in sales and cash receipts journals; post; prepare a trial balance; prove control to subsidiary; prepare adjusting entries; prepare an adjusted trial balance.

(SO 2, 3, 4)



PURCHASES JOURNAL			P1
Date	Account Credited	Ref.	Merchandise Inventory Dr. Accounts Payable Cr.
July 4	G. Clemens		6,800
5	A. Ernst		8,100
11	J. Happy		5,920
13	C. Tabor		15,300
20	M. Sneazy		7,900
			<u>44,020</u>

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CASH PAYMENTS JOURNAL

CP1

Date	Account Debited	Ref.	Other Accounts Dr.	Accounts Payable Dr.	Merchandise Inventory Cr.	Cash Cr.
July 4	Store Supplies		600			600
10	A. Ernst			8,100	81	8,019
11	Prepaid Rent		6,000			6,000
15	G. Clemens			6,800		6,800
19	Reyes, Drawing		2,500			2,500
21	C. Tabor			15,300	153	15,147
			<u>9,100</u>	<u>30,200</u>	<u>234</u>	<u>39,066</u>

In addition, the following transactions have not been journalized for July. The cost of all merchandise sold was 65% of the sales price.

- July 1 The founder, D. Reyes, invests \$80,000 in cash.
- 6 Sell merchandise on account to Ewing Co. \$6,200 terms 1/10, n/30.
- 7 Make cash sales totaling \$6,000.
- 8 Sell merchandise on account to S. Beauty \$3,600, terms 1/10, n/30.
- 10 Sell merchandise on account to W. Pitts \$4,900, terms 1/10, n/30.
- 13 Receive payment in full from S. Beauty.
- 16 Receive payment in full from W. Pitts.
- 20 Receive payment in full from Ewing Co.
- 21 Sell merchandise on account to H. Prince \$5,000, terms 1/10, n/30.
- 29 Returned damaged goods to G. Clemens and received cash refund of \$420.

Instructions

(a) Open the following accounts in the general ledger.

- 101 Cash
- 112 Accounts Receivable
- 120 Merchandise Inventory
- 127 Store Supplies
- 131 Prepaid Rent
- 201 Accounts Payable
- 301 Reyes, Capital
- 306 Reyes, Drawing
- 401 Sales
- 414 Sales Discounts
- 505 Cost of Goods Sold
- 631 Supplies Expense
- 729 Rent Expense

(b) Sales journal total \$19,700
Cash receipts journal balancing totals \$101,120

(e) Totals \$119,520
(f) Accounts Receivable \$5,000
Accounts Payable \$13,820
(h) Totals \$119,520

Journalize in special journals; post; prepare a trial balance.

(SO 2, 3, 4)



- (b) Journalize the transactions that have not been journalized in the sales journal, the cash receipts journal (see Illustration 7-9), and the general journal.
- (c) Post to the accounts receivable and accounts payable subsidiary ledgers. Follow the sequence of transactions as shown in the problem.
- (d) Post the individual entries and totals to the general ledger.
- (e) Prepare a trial balance at July 31, 2010.
- (f) Determine whether the subsidiary ledgers agree with the control accounts in the general ledger.
- (g) The following adjustments at the end of July are necessary.
 - (1) A count of supplies indicates that \$140 is still on hand.
 - (2) Recognize rent expense for July, \$500.
 Prepare the necessary entries in the general journal. Post the entries to the general ledger.
- (h) Prepare an adjusted trial balance at July 31, 2010.

P7-6A The post-closing trial balance for Cortez Co. is as follows.

CORTEZ CO.
Post-Closing Trial Balance
December 31, 2010

	Debit	Credit
Cash	\$ 41,500	
Accounts Receivable	15,000	
Notes Receivable	45,000	
Merchandise Inventory	23,000	
Equipment	6,450	
Accumulated Depreciation—Equipment		\$ 1,500
Accounts Payable		43,000
B. Cortez, Capital		86,450
	\$130,950	\$130,950

The subsidiary ledgers contain the following information: (1) accounts receivable—J. Anders \$2,500, F. Cone \$7,500, T. Dudley \$5,000; (2) accounts payable—J. Feeney \$10,000, D. Goodman \$18,000, and K. Inwood \$15,000. The cost of all merchandise sold was 60% of the sales price.

The transactions for January 2011 are as follows.

- Jan. 3 Sell merchandise to M. Rensing \$5,000, terms 2/10, n/30.
 5 Purchase merchandise from E. Vietti \$2,000, terms 2/10, n/30.
 7 Receive a check from T. Dudley \$3,500.
 11 Pay freight on merchandise purchased \$300.
 12 Pay rent of \$1,000 for January.
 13 Receive payment in full from M. Rensing.
 14 Post all entries to the subsidiary ledgers. Issued credit of \$300 to J. Anders for returned merchandise.
 15 Send K. Inwood a check for \$14,850 in full payment of account, discount \$150.
 17 Purchase merchandise from G. Marley \$1,600, terms 2/10, n/30.
 18 Pay sales salaries of \$2,800 and office salaries \$2,000.
 20 Give D. Goodman a 60-day note for \$18,000 in full payment of account payable.
 23 Total cash sales amount to \$9,100.
 24 Post all entries to the subsidiary ledgers. Sell merchandise on account to F. Cone \$7,400, terms 1/10, n/30.
 27 Send E. Vietti a check for \$950.
 29 Receive payment on a note of \$40,000 from B. Lemke.
 30 Post all entries to the subsidiary ledgers. Return merchandise of \$300 to G. Marley for credit.

Instructions

- (a) Open general and subsidiary ledger accounts for the following.

101 Cash	301 B. Cortez, Capital
112 Accounts Receivable	401 Sales
115 Notes Receivable	412 Sales Returns and Allowances
120 Merchandise Inventory	414 Sales Discounts
157 Equipment	505 Cost of Goods Sold
158 Accumulated Depreciation—Equipment	726 Sales Salaries Expense
200 Notes Payable	727 Office Salaries Expense
201 Accounts Payable	729 Rent Expense

- (b) Record the January transactions in a sales journal, a single-column purchases journal, a cash receipts journal (see Illustration 7-9), a cash payments journal (see Illustration 7-16), and a general journal.
 (c) Post the appropriate amounts to the general ledger.
 (d) Prepare a trial balance at January 31, 2011.
 (e) Determine whether the subsidiary ledgers agree with controlling accounts in the general ledger.

(b) Sales journal \$12,400
 Purchases journal \$3,600
 Cash receipts journal (balancing) \$57,600
 Cash payments journal (balancing) \$22,050
 (d) Totals \$139,800
 (e) Accounts Receivable \$18,600
 Accounts Payable \$12,350

PROBLEMS: SET B

Journalize transactions in cash receipts journal; post to control account and subsidiary ledger.

(SO 2, 3, 4)



P7-1B Kentucky Company's chart of accounts includes the following selected accounts.

101 Cash	401 Sales
112 Accounts Receivable	414 Sales Discounts
120 Merchandise Inventory	505 Cost of Goods Sold
301 Ken Tucky, Capital	

On June 1 the accounts receivable ledger of Kentucky Company showed the following balances: Moose & Son \$3,500, Chris Co. \$2,800, Cornell Bros. \$2,400, and Marx Co. \$2,000. The June transactions involving the receipt of cash were as follows.

- June 1 The owner, Ken Tucky, invested additional cash in the business \$12,000.
- 3 Received check in full from Marx Co. less 2% cash discount.
- 6 Received check in full from Chris Co. less 2% cash discount.
- 7 Made cash sales of merchandise totaling \$8,700. The cost of the merchandise sold was \$5,000.
- 9 Received check in full from Moose & Son less 2% cash discount.
- 11 Received cash refund from a supplier for damaged merchandise \$450.
- 15 Made cash sales of merchandise totaling \$6,500. The cost of the merchandise sold was \$4,000.
- 20 Received check in full from Cornell Bros. \$2,400.

Instructions

(a) Balancing totals \$38,350

- (a) Journalize the transactions above in a six-column cash receipts journal with columns for Cash Dr., Sales Discounts Dr., Accounts Receivable Cr., Sales Cr., Other Accounts Cr., and Cost of Goods Sold Dr./Merchandise Inventory Cr. Foot and crossfoot the journal.
- (b) Insert the beginning balances in the Accounts Receivable control and subsidiary accounts, and post the June transactions to these accounts.
- (c) Prove the agreement of the control account and subsidiary account balances.

(c) Accounts Receivable \$0

Journalize transactions in cash payments journal; post to the general and subsidiary ledgers.

(SO 2, 3, 4)



P7-2B Starr Company's chart of accounts includes the following selected accounts.

101 Cash	157 Equipment
120 Merchandise Inventory	201 Accounts Payable
130 Prepaid Insurance	306 R. Starr, Drawing

On November 1 the accounts payable ledger of Starr Company showed the following balances: P. McCartney \$4,000, J. Lennon \$2,100, G. Harrison \$800, and J. Lynne \$1,300. The November transactions involving the payment of cash were as follows.

- Nov. 1 Purchased merchandise, check no. 11, \$950.
- 3 Purchased store equipment, check no. 12, \$1,400.
- 5 Paid J. Lynne balance due of \$1,300, less 1% discount, check no. 13, \$1,287.
- 11 Purchased merchandise, check no. 14, \$1,700.
- 15 Paid G. Harrison balance due of \$800, less 3% discount, check no. 15, \$776.
- 16 R. Starr, the owner, withdrew \$400 cash for own use, check no. 16.
- 19 Paid J. Lennon in full for invoice no. 1245, \$2,100 less 2% discount, check no. 17, \$2,058.
- 25 Paid premium due on one-year insurance policy, check no. 18, \$2,400.
- 30 Paid P. McCartney in full for invoice no. 832, \$2,900, check no. 19.

Instructions

(a) Balancing totals \$13,950

- (a) Journalize the transactions above in a four-column cash payments journal with columns for Other Accounts Dr., Accounts Payable Dr., Merchandise Inventory Cr., and Cash Cr. Foot and crossfoot the journal.
- (b) Insert the beginning balances in the Accounts Payable control and subsidiary accounts, and post the November transactions to these accounts.
- (c) Prove the agreement of the control account and the subsidiary account balances.

(c) Accounts Payable \$1,100

Journalize transactions in multi-column purchases journal; post to the general and subsidiary ledgers.

(SO 2, 3, 4)



P7-3B The chart of accounts of Dickinson Company includes the following selected accounts.

112 Accounts Receivable	401 Sales
120 Merchandise Inventory	412 Sales Returns and Allowances
126 Supplies	505 Cost of Goods Sold
157 Equipment	610 Advertising Expense
201 Accounts Payable	

In May the following selected transactions were completed. All purchases and sales were on account except as indicated. The cost of all merchandise sold was 60% of the sales price.

- May 2 Purchased merchandise from Older Company \$5,000.
 3 Received freight bill from Fast Freight on Older purchase \$250.
 5 Sales were made to May Company \$1,300, Coen Bros. \$1,800, and Lucy Company \$1,000.
 8 Purchased merchandise from Wolfe Company \$5,400 and Zig Company \$3,000.
 10 Received credit on merchandise returned to Zig Company \$350.
 15 Purchased supplies from Michelle's Supplies \$600.
 16 Purchased merchandise from Older Company \$3,100, and Wolfe Company \$4,800.
 17 Returned supplies to Michelle's Supplies, receiving credit \$70. (*Hint: Credit Supplies.*)
 18 Received freight bills on May 16 purchases from Fast Freight \$325.
 20 Returned merchandise to Older Company receiving credit \$200.
 23 Made sales to Coen Bros. \$1,600 and to Lucy Company \$2,500.
 25 Received bill for advertising from Ole Advertising \$620.
 26 Granted allowance to Lucy Company for merchandise damaged in shipment \$140.
 28 Purchased equipment from Michelle's Supplies \$400.

Instructions

- (a) Journalize the transactions above in a purchases journal, a sales journal, and a general journal. The purchases journal should have the following column headings: Date, Account Credited (Debited), Ref., Accounts Payable Cr., Merchandise Inventory Dr., and Other Accounts Dr.
 (b) Post to both the general and subsidiary ledger accounts. (Assume that all accounts have zero beginning balances.)
 (c) Prove the agreement of the control and subsidiary accounts.

(a) Purchases journal—
 Accounts Payable, Cr.
 \$23,495
 Sales column total
 \$8,200
 (c) Accounts Receivable
 \$8,060
 Accounts Payable
 \$22,875

P7-4B Selected accounts from the chart of accounts of Valente Company are shown below.

101 Cash	201 Accounts Payable
112 Accounts Receivable	401 Sales
120 Merchandise Inventory	414 Sales Discounts
126 Supplies	505 Cost of Goods Sold
140 Land	610 Advertising Expense
145 Buildings	

Journalize transactions in special journals.

(SO 2, 3, 4)



The cost of all merchandise sold was 65% of the sales price. During October, Valente Company completed the following transactions.

- Oct. 2 Purchased merchandise on account from Janet Company \$12,000.
 4 Sold merchandise on account to Erik Co. \$5,600. Invoice no. 204, terms 2/10, n/30.
 5 Purchased supplies for cash \$60.
 7 Made cash sales for the week totaling \$6,700.
 9 Paid in full the amount owed Janet Company less a 2% discount.
 10 Purchased merchandise on account from Arduino Corp. \$2,600.
 12 Received payment from Erik Co. for invoice no. 204.
 13 Returned \$150 worth of damaged goods purchased on account from Arduino Corp. on October 10.
 14 Made cash sales for the week totaling \$6,000.
 16 Sold a parcel of land for \$20,000 cash, the land's original cost.
 17 Sold merchandise on account to Ed's Warehouse \$3,900, invoice no. 205, terms 2/10, n/30.
 18 Purchased merchandise for cash \$1,600.
 21 Made cash sales for the week totaling \$6,000.
 23 Paid in full the amount owed Arduino Corp. for the goods kept (no discount).
 25 Purchased supplies on account from Paul Martin Co. \$190.
 25 Sold merchandise on account to David Corp. \$3,800, invoice no. 206, terms 2/10, n/30.
 25 Received payment from Ed's Warehouse for invoice no. 205.
 26 Purchased for cash a small parcel of land and a building on the land to use as a storage facility. The total cost of \$26,000 was allocated \$16,000 to the land and \$10,000 to the building.
 27 Purchased merchandise on account from Mary Co. \$6,200.
 28 Made cash sales for the week totaling \$5,500.
 30 Purchased merchandise on account from Janet Company \$10,000.
 30 Paid advertising bill for the month from the *Gazette*, \$290.
 30 Sold merchandise on account to Ed's Warehouse \$3,400, invoice no. 207, terms 2/10, n/30.

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Valente Company uses the following journals.

1. Sales journal.
2. Single-column purchases journal.
3. Cash receipts journal with columns for Cash Dr., Sales Discounts Dr., Accounts Receivable Cr., Sales Cr., Other Accounts Cr., and Cost of Goods Sold Dr./Merchandise Inventory Cr.
4. Cash payments journal with columns for Other Accounts Dr., Accounts Payable Dr., Merchandise Inventory Cr., and Cash Cr.
5. General journal.

(b) Sales journal \$16,700
 Purchases journal \$30,800
 Cash receipts journal—
 Cash, Dr. \$53,510
 Cash payments journal,
 Cash, Cr. \$42,160

Instructions

Using the selected accounts provided:

- (a) Record the October transactions in the appropriate journals.
- (b) Foot and crossfoot all special journals.
- (c) Show how postings would be made by placing ledger account numbers and check marks as needed in the journals. (Actual posting to ledger accounts is not required.)

Journalize in purchases and cash payments journals; post; prepare a trial balance; prove control to subsidiary; prepare adjusting entries; prepare an adjusted trial balance.

P7-5B Presented below are the sales and cash receipts journals for Wicked Co. for its first month of operations.

(SO 2, 3, 4)



SALES JOURNAL

S1

Date	Account Debited	Ref.	Accounts Receivable Dr. Sales Cr.	Cost of Goods Sold Dr. Merchandise Inventory Cr.
Feb. 3	C. Lion		4,000	2,400
9	S. Crow		5,000	3,000
12	T. Mann		6,500	3,900
26	W. Oz		<u>5,500</u>	<u>3,300</u>
			<u>21,000</u>	<u>12,600</u>

CASH RECEIPTS JOURNAL

CR1

Date	Account Credited	Ref.	Cash Dr.	Sales Discounts Dr.	Accounts Receivable Cr.	Sales Cr.	Other Accounts Cr.	Cost of Goods Sold Dr. Merchandise Inventory Cr.
Feb. 1	B. Wicked, Capital		23,000				23,000	
2			4,500			4,500		2,700
13	C. Lion		3,960	40	4,000			
18	Merchandise Inventory		120				120	
26	S. Crow		<u>5,000</u>		<u>5,000</u>			
			<u>36,580</u>	<u>40</u>	<u>9,000</u>	<u>4,500</u>	<u>23,120</u>	<u>2,700</u>

In addition, the following transactions have not been journalized for February 2010.

- Feb. 2 Purchased merchandise on account from J. Garland for \$3,600, terms 2/10, n/30.
- 7 Purchased merchandise on account from B. Lahr for \$23,000, terms 1/10, n/30.
- 9 Paid cash of \$980 for purchase of supplies.
- 12 Paid \$3,528 to J. Garland in payment for \$3,600 invoice, less 2% discount.
- 15 Purchased equipment for \$5,500 cash.
- 16 Purchased merchandise on account from D. Gale \$1,900, terms 2/10, n/30.
- 17 Paid \$22,770 to B. Lahr in payment of \$23,000 invoice, less 1% discount.
- 20 B. Wicked withdrew cash of \$800 from business for personal use.
- 21 Purchased merchandise on account from Kansas Company for \$6,000, terms 1/10, n/30.
- 28 Paid \$1,900 to D. Gale in payment of \$1,900 invoice.

Instructions

- (a) Open the following accounts in the general ledger.

101 Cash	120 Merchandise Inventory
112 Accounts Receivable	126 Supplies

- | | |
|--|--------------------------|
| 157 Equipment | 401 Sales |
| 158 Accumulated Depreciation—Equipment | 414 Sales Discounts |
| 201 Accounts Payable | 505 Cost of Goods Sold |
| 301 B. Wicked, Capital | 631 Supplies Expense |
| 306 B. Wicked, Drawing | 711 Depreciation Expense |

- (b) Journalize the transactions that have not been journalized in a one-column purchases journal and the cash payments journal (see Illustration 7-16).
- (c) Post to the accounts receivable and accounts payable subsidiary ledgers. Follow the sequence of transactions as shown in the problem.
- (d) Post the individual entries and totals to the general ledger.
- (e) Prepare a trial balance at February 28, 2010.
- (f) Determine that the subsidiary ledgers agree with the control accounts in the general ledger.
- (g) The following adjustments at the end of February are necessary.
- (1) A count of supplies indicates that \$200 is still on hand.
 - (2) Depreciation on equipment for February is \$150.
- Prepare the adjusting entries and then post the adjusting entries to the general ledger.
- (h) Prepare an adjusted trial balance at February 28, 2010.

(b) Purchases journal total \$34,500
Cash payments journal—Cash, Cr. \$35,478

(e) Totals \$54,500

(f) Accounts Receivable \$12,000
Accounts Payable \$6,000

(h) Totals \$54,650

PROBLEMS: SET C

Visit the book's companion website at www.wiley.com/college/veygandt, and choose the Student Companion site, to access Problem Set C.



COMPREHENSIVE PROBLEM: CHAPTERS 3 TO 7

Packard Company has the following opening account balances in its general and subsidiary ledgers on January 1 and uses the periodic inventory system. All accounts have normal debit and credit balances.

General Ledger

Account Number	Account Title	January 1 Opening Balance
101	Cash	\$33,750
112	Accounts Receivable	13,000
115	Notes Receivable	39,000
120	Merchandise Inventory	20,000
125	Office Supplies	1,000
130	Prepaid Insurance	2,000
157	Equipment	6,450
158	Accumulated Depreciation	1,500
201	Accounts Payable	35,000
301	I. Packard, Capital	78,700

Accounts Receivable Subsidiary Ledger

Customer	January 1 Opening Balance
R. Draves	\$1,500
B. Hachinski	7,500
S. Ingles	4,000

Accounts Payable Subsidiary Ledger

Creditor	January 1 Opening Balance
S. Kosko	\$ 9,000
R. Mikush	15,000
D. Moreno	11,000

- Jan. 3 Sell merchandise on account to B. Remy \$3,100, invoice no. 510, and J. Fine \$1,800, invoice no. 511.
- 5 Purchase merchandise on account from S. Yost \$3,000 and D. Laux \$2,700.
- 7 Receive checks for \$4,000 from S. Ingles and \$2,000 from B. Hachinski.
- 8 Pay freight on merchandise purchased \$180.
- 9 Send checks to S. Kosko for \$9,000 and D. Moreno for \$11,000.

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- 9 Issue credit of \$300 to J. Fine for merchandise returned.
- 10 Summary cash sales total \$15,500.
- 11 Sell merchandise on account to R. Draves for \$1,900, invoice no. 512, and to S. Ingles \$900, invoice no. 513.
Post all entries to the subsidiary ledgers.
- 12 Pay rent of \$1,000 for January.
- 13 Receive payment in full from B. Remy and J. Fine.
- 15 Withdraw \$800 cash by I. Packard for personal use.
- 16 Purchase merchandise on account from D. Moreno for \$15,000, from S. Kosko for \$13,900, and from S. Yost for \$1,500.
- 17 Pay \$400 cash for office supplies.
- 18 Return \$200 of merchandise to S. Kosko and receive credit.
- 20 Summary cash sales total \$17,500.
- 21 Issue \$15,000 note to R. Mikush in payment of balance due.
- 21 Receive payment in full from S. Ingles.
Post all entries to the subsidiary ledgers.
- 22 Sell merchandise on account to B. Remy for \$3,700, invoice no. 514, and to R. Draves for \$800, invoice no. 515.
- 23 Send checks to D. Moreno and S. Kosko in full payment.
- 25 Sell merchandise on account to B. Hachinski for \$3,500, invoice no. 516, and to J. Fine for \$6,100, invoice no. 517.
- 27 Purchase merchandise on account from D. Moreno for \$12,500, from D. Laux for \$1,200, and from S. Yost for \$2,800.
- 28 Pay \$200 cash for office supplies.
- 31 Summary cash sales total \$22,920.
- 31 Pay sales salaries of \$4,300 and office salaries of \$3,600.

Instructions

- (a) Record the January transactions in the appropriate journal—sales, purchases, cash receipts, cash payments, and general.
- (b) Post the journals to the general and subsidiary ledgers. Add and number new accounts in an orderly fashion as needed.
- (c) Prepare a trial balance at January 31, 2010, using a worksheet. Complete the worksheet using the following additional information.
 - (1) Office supplies at January 31 total \$700.
 - (2) Insurance coverage expires on October 31, 2010.
 - (3) Annual depreciation on the equipment is \$1,500.
 - (4) Interest of \$30 has accrued on the note payable.
 - (5) Merchandise inventory at January 31 is \$15,000.
- (d) Prepare a multiple-step income statement and a statement of owner's equity for January and a classified balance sheet at the end of January.
- (e) Prepare and post the adjusting and closing entries.
- (f) Prepare a post-closing trial balance, and determine whether the subsidiary ledgers agree with the control accounts in the general ledger.

(c) Trial balance totals
\$196,820;
Adj. T/B totals \$196,975

(d) Net income \$9,685
Total assets \$126,315

(f) Post-closing T/B totals
\$127,940

BROADENING YOUR PERSPECTIVE

FINANCIAL REPORTING AND ANALYSIS

Financial Reporting Problem—Mini Practice Set



BYP7-1 (You will need the working papers that accompany this textbook in order to work this mini practice set.)

Bluma Co. uses a perpetual inventory system and both an accounts receivable and an accounts payable subsidiary ledger. Balances related to both the general ledger and the subsidiary ledger for Bluma are indicated in the working papers. Presented below are a series of transactions for

Bluma Co. for the month of January. Credit sales terms are 2/10, n/30. The cost of all merchandise sold was 60% of the sales price.

- Jan. 3 Sell merchandise on account to B. Richey \$3,100, invoice no. 510, and to J. Forbes \$1,800, invoice no. 511.
- 5 Purchase merchandise from S. Vogel \$5,000 and D. Lynch \$2,200, terms n/30.
- 7 Receive checks from S. LaDew \$4,000 and B. Garcia \$2,000 after discount period has lapsed.
- 8 Pay freight on merchandise purchased \$235.
- 9 Send checks to S. Hoyt for \$9,000 less 2% cash discount, and to D. Omara for \$11,000 less 1% cash discount.
- 9 Issue credit of \$300 to J. Forbes for merchandise returned.
- 10 Summary daily cash sales total \$15,500.
- 11 Sell merchandise on account to R. Dvorak \$1,600, invoice no. 512, and to S. LaDew \$900, invoice no. 513.
- 12 Pay rent of \$1,000 for January.
- 13 Receive payment in full from B. Richey and J. Forbes less cash discounts.
- 15 Withdraw \$800 cash by M. Bluma for personal use.
- 15 Post all entries to the subsidiary ledgers.
- 16 Purchase merchandise from D. Omara \$18,000, terms 1/10, n/30; S. Hoyt \$14,200, terms 2/10, n/30; and S. Vogel \$1,500, terms n/30.
- 17 Pay \$400 cash for office supplies.
- 18 Return \$200 of merchandise to S. Hoyt and receive credit.
- 20 Summary daily cash sales total \$20,100.
- 21 Issue \$15,000 note, maturing in 90 days, to R. Moses in payment of balance due.
- 21 Receive payment in full from S. LaDew less cash discount.
- 22 Sell merchandise on account to B. Richey \$2,700, invoice no. 514, and to R. Dvorak \$1,300, invoice no. 515.
- 22 Post all entries to the subsidiary ledgers.
- 23 Send checks to D. Omara and S. Hoyt in full payment less cash discounts.
- 25 Sell merchandise on account to B. Garcia \$3,500, invoice no. 516, and to J. Forbes \$6,100, invoice no. 517.
- 27 Purchase merchandise from D. Omara \$14,500, terms 1/10, n/30; D. Lynch \$1,200, terms n/30; and S. Vogel \$5,400, terms n/30.
- 27 Post all entries to the subsidiary ledgers.
- 28 Pay \$200 cash for office supplies.
- 31 Summary daily cash sales total \$21,300.
- 31 Pay sales salaries \$4,300 and office salaries \$3,800.

Instructions

- (a) Record the January transactions in a sales journal, a single-column purchases journal, a cash receipts journal as shown on page 313, a cash payments journal as shown on page 318, and a two-column general journal.
- (b) Post the journals to the general ledger.
- (c) Prepare a trial balance at January 31, 2010, in the trial balance columns of the worksheet. Complete the worksheet using the following additional information.
- (1) Office supplies at January 31 total \$900.
 - (2) Insurance coverage expires on October 31, 2010.
 - (3) Annual depreciation on the equipment is \$1,500.
 - (4) Interest of \$50 has accrued on the note payable.
- (d) Prepare a multiple-step income statement and an owner's equity statement for January and a classified balance sheet at the end of January.
- (e) Prepare and post adjusting and closing entries.
- (f) Prepare a post-closing trial balance, and determine whether the subsidiary ledgers agree with the control accounts in the general ledger.

Exploring the Web

BYP7-2 Microsoft Office Accounting Professional is one of the leading accounting software packages. Information related to this package is found at its website.

Address: <http://office.microsoft.com/en-us/accounting/HA102505581033.aspx>, or go to www.wiley.com/college/wegandt



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Instructions

Go to the website shown above and answer the following questions.

- (a) What are the top ten reasons to try Microsoft Office Accounting Professional?
- (b) Explain the basic features of the payroll add-on service in Microsoft Office Accounting Professional.

CRITICAL THINKING



Decision Making Across the Organization

BYP7-3 Hughey & Payne is a wholesaler of small appliances and parts. Hughey & Payne is operated by two owners, Rich Hughey and Kristen Payne. In addition, the company has one employee, a repair specialist, who is on a fixed salary. Revenues are earned through the sale of appliances to retailers (approximately 75% of total revenues), appliance parts to do-it-yourselfers (10%), and the repair of appliances brought to the store (15%). Appliance sales are made on both a credit and cash basis. Customers are billed on prenumbered sales invoices. Credit terms are always net/30 days. All parts sales and repair work are cash only.

Merchandise is purchased on account from the manufacturers of both the appliances and the parts. Practically all suppliers offer cash discounts for prompt payments, and it is company policy to take all discounts. Most cash payments are made by check. Checks are most frequently issued to suppliers, to trucking companies for freight on merchandise purchases, and to newspapers, radio, and TV stations for advertising. All advertising bills are paid as received. Rich and Kristen each make a monthly drawing in cash for personal living expenses. The salaried repairman is paid twice monthly. Hughey & Payne currently has a manual accounting system.

Instructions

With the class divided into groups, answer the following.

- (a) Identify the special journals that Hughey & Payne should have in its manual system. List the column headings appropriate for each of the special journals.
- (b) What control and subsidiary accounts should be included in Hughey & Payne manual system? Why?

Communication Activity

BYP7-4 Barb Doane, a classmate, has a part-time bookkeeping job. She is concerned about the inefficiencies in journalizing and posting transactions. Jim Houser is the owner of the company where Barb works. In response to numerous complaints from Barb and others, Jim hired two additional bookkeepers a month ago. However, the inefficiencies have continued at an even higher rate. The accounting information system for the company has only a general journal and a general ledger. Jim refuses to install an electronic accounting system.

Instructions

Now that Barb is an expert in manual accounting information systems, she decides to send a letter to Jim Houser explaining (1) why the additional personnel did not help and (2) what changes should be made to improve the efficiency of the accounting department. Write the letter that you think Barb should send.

Ethics Case

BYP7-5 Roniger Products Company operates three divisions, each with its own manufacturing plant and marketing/sales force. The corporate headquarters and central accounting office are in Roniger, and the plants are in Freeport, Rockport, and Bayport, all within 50 miles of Roniger. Corporate management treats each division as an independent profit center and encourages competition among them. They each have similar but different product lines. As a competitive incentive, bonuses are awarded each year to the employees of the fastest growing and most profitable division.

Jose Molina is the manager of Roniger's centralized computer accounting operation that enters the sales transactions and maintains the accounts receivable for all three divisions. Jose came up in the accounting ranks from the Bayport division where his wife, several relatives, and many friends still work.

As sales documents are entered into the computer, the originating division is identified by code. Most sales documents (95%) are coded, but some (5%) are not coded or are coded incorrectly. As the manager, Jose has instructed the data-entry personnel to assign the Bayport code to all uncoded and incorrectly coded sales documents. This is done he says, "in order to expedite processing and to keep the computer files current since they are updated daily." All receivables and cash collections for all three divisions are handled by Roniger as one subsidiary accounts receivable ledger.

Instructions

- (a) Who are the stakeholders in this situation?
- (b) What are the ethical issues in this case?
- (c) How might the system be improved to prevent this situation?

"All About You" Activity



BYP7-6 In this chapter you learned about a basic manual accounting information system. Computerized accounting systems range from the very basic and inexpensive to the very elaborate and expensive. Even the most sophisticated systems are based on the fundamental structures and relationships that you learned in this chapter.

Instructions

Go to the book companion site for this text, www.wiley.com/college/weygandt, and review the demonstration that is provided for the general ledger software package that is used with this text. Prepare a brief explanation of how the general ledger system works—that is, how it is used, and what information it provides.

Answers to Insight and Accounting Across the Organization Questions



p. 304 Curbing Fraudulent Activity with Software

- Q: Why might this software help reduce fraudulent activity by employees?
- A: *By pinpointing who used the accounting system and when they used it, the software can hold employees more accountable for their actions. Companies hope that this will reduce efforts by employees to enter false accounting entries, change the dates of transactions, or create unauthorized expenditures. If employees do engage in these activities, there will be significant evidence of their activities.*

p. 307 "I'm John Smith, a.k.a. 13695071642"

- Q: Why use numbers to identify names in a computerized system?
- A: *Computerized systems process numbers faster than letters. Also, letters sometimes cause problems because you may have two people with the same name. Computerized systems avoid this problem by giving different customers, including those with the same names, different account numbers.*

Answers to Self-Study Questions

1. d 2. c 3. a 4. c 5. c 6. c 7. d 8. c 9. a 10. d 11. c 12. d 13. b
14. c 15. c