

INSTRUCTIONAL NOTES AND SOLUTIONS GUIDE

THE MANUAL ACCOUNTING INFORMATION SYSTEM: The Winery at Chateau Americana

INSTRUCTIONAL OBJECTIVES

- Recognize and prepare common business documents
- Recognize and understand common control activities designed to capture, summarize, and report business activities
- Explain the objectives of maintaining an audit trail
- Recognize deficiencies in the design of common business documents
- Prepare journal entries, journals, and ledgers
- Understand the relationships among various documents, journals, and ledgers in the accounting cycle

CLASSROOM USE

The *CAST* Manual AIS Module is designed to be used as an instructional aid in an introductory financial accounting course, an intermediate accounting course, an accounting information systems course, or an auditing course. It is our suggestion, that if used in an introductory financial accounting course, it is used towards the end of the course, after the students have learned the basics of transaction processing.

In whatever course it is utilized, however, the Manual AIS Module can help students understand how the accounting process actually takes place by giving them the opportunity to work with authentic source documents and then to work through the entire accounting cycle.

The Manual AIS Module has been designed to be an independent, stand-alone assignment. You might find it facilitates a fast start for your students if you spend some time in the classroom introducing the assignment, going over the booklet and what it contains, and going through a timetable to keep them on track.

What's New?

The second edition now contains three alternative transaction sets to allow the instructor to rotate through them from semester to semester and to provide some variety between the transactions provided. In addition, we have added requirements for a bank reconciliation, as well as the reconciliations of the accounts receivable, accounts payable, and perpetual inventory subsidiary ledgers. When working the bank reconciliation, students have been instructed to obtain the bank balance from the instructor as each transaction set requires a different amount. These amounts

have been provided for you in the bank reconciliation requirement in this Solution Manual.

The notation for the current year has been changed to XX to avoid confusion for the students, since we update the solutions every year for current payroll taxes. The prior year is denoted as XW and the subsequent year is denoted as XY. As a result of the changes in the payroll taxes, the instructor will also have to look access the current bank statement balance for each year from the solution manual online.

We hope you will find these changes beneficial.

TRANSACTION SET A

The books have been posted through December 15, 20XX. The following selected transactions have been extracted from the period December 16 through December 31, 20XX and are to be completed in accordance with the policies and procedures explained above. Documents to be completed can be found in the Document Packet. For all required signatures on these documents sign your name. Supporting documentation for the transactions is provided behind the Year-End Procedures followed by all necessary journals and ledgers.

Note that the current year transactions are denoted as 20XX; prior year transactions are denoted as 20XW; transactions for the subsequent year are denoted as 20XY. Your instructor will provide you with the appropriate current year and you can make the fill in the dates accordingly for all transactions.

December	Transaction
16	Receive a purchase order from California Premium Beverage (page 17). Fill and ship the order. Complete Invoice No. 15535, Bill of Lading No. 136480 and record the sale in the journals and ledgers. W. A. Bierkstahler is the sales account representative. Relevant data: shipment weight - 12,532 lbs., trailer # - 122302, serial # - 999356278. The carrier is CA Express. Leave the CID No. blank.
16	Order 18,000 lbs. white grapes at \$1.05 per pound from Mendocino Vineyards. The item number for the white grapes is WG1003. Complete Purchase Order No. 9682. Relevant data: date required - Dec. 22, shipper - Longhorn Shippers, Inc., buyer - Franz Bieler, supplier # - M0652.
16	Purchase a 20XW Ford truck for \$26,750.00. The terms include a \$4,750.00 down payment and a 3-year, 6% promissory note to Ford Credit for the remaining \$22,000.00. Principal and interest on the note are due monthly beginning January 4, 20XY. The company expects the truck to have a useful life of 5 years and no salvage value. Prepare Check No. 19257 payable to Potter Valley Ford for the down payment and record the transaction in the journals and ledgers.
17	Receive a phone complaint from Seaside Distributors about a case of Chenin Blanc that was damaged in shipment. The case was part of Invoice No. 15175, dated November 5, 20XX, in the amount of \$20,438.40. Seaside paid the invoice on November 19, 20XX and took advantage of the discount (terms 3/15, net 30). Prepare Credit Memo No. 2753 to write-off the damaged inventory that was not returned, and prepare Check No. 19286 to reimburse Seaside for the damaged goods. Record the transactions in the journals and ledgers. W. A. Bierkstahler is the sales account representative. Relevant data: customer PO # - MZ5713. (Note: Be sure to review <i>Returns and Allowances</i> on Page 6.)
19	Receive \$850 refund from California Wine & Cheese Monthly for overpayment of advertising costs (page 18). Enter the receipt on Cash Receipts Summary No. 5712 and record the cash receipt in the journals and ledgers.

December	Transaction
19	Receive payment in full from Pacific Distribution Co. on Invoice No. 15243 dated November 13, 20XX, in the amount of \$19,576.80 (page 19). Enter the receipt on Cash Receipts Summary No. 5712 and record the cash receipt in the journals and ledgers.
19	Receive a purchase order (page 20) with payment (page 21) from Sonoma Distributors. Fill and ship the order. Complete Invoice No. C2489, enter the receipt on Cash Receipts Summary No. 5712, and record the sale in the journals and ledgers. W. A. Bierkstahler is the sales account representative. Relevant data: shipment weight - 7,650 lbs., trailer # - 279AJ1, serial # - 919515094. (Hint: Use the Other Account column to post Inventory and Cost of Goods Sold.) DO NOT create a Bill of Lading for this purchase order.
22	Receive 14,000 lbs. red grapes at \$0.99 per pound from Mendocino Vineyards. Also received Invoice No. M7634 from Mendocino Vineyards with the shipment (page 22). Terms on the invoice are 2/10, net 30. Complete Receiving Report No. 17251 and record the inventory in the journals and ledgers using the gross method.
26	Receive utility bill from Pacific Gas and Electric in the amount of \$18,887.62 (page 23). Prepare Check No. 19402 and record the payment in the journals and ledgers.
30	Receive Brokerage Advice from Edwards Jones for purchase of 500 shares of Microsoft at \$49.20 per share plus \$400 broker's commission (page 24). Prepare Check No. 19468 and record the purchase in the journals and ledgers.
30	Prepare Check No. 19473 payable to Mendocino Vineyards for the shipment received on December 22 and record the payment in the journals and ledgers.
31	Receive payment in full for the December 16 purchase from California Premium Beverage (page 25). Enter the cash receipt on Cash Receipts Summary No. 5718 and record the cash receipt in the journals and ledgers.
31	Prepare Payroll Checks (Nos. 7111-7114) for Anna Johnson, José Rodriguez, Tom Bryan, and Bob Hissom. Time cards for Tom and Bob are on pages 26-27. Prepare Check No. 19474 to transfer cash from the general cash account to the payroll account. Record the payroll transactions and all appropriate <i>accruals</i> in the journals and ledgers.
31	Prepare Check No. 19475 to repay \$50,000 of the principal on long-term debt to Bank of Huntington and record the payment in the journals and ledgers.

MONTH-END PROCEDURES

1. Calculate monthly accrued interest expense for the installment note to Ford Credit (based on 365 days per year and interest starting to accrue on December 17, 20XX). Make the appropriate adjusting entry. The payable is posted to Other Accrued Expenses Payable.
2. For your convenience, depreciation in the amount of \$105,341.50 has been calculated on all assets for the month of December **except** for any current purchases of assets. Calculate the depreciation for the Ford Pickup purchased on December 16. Post the depreciation to the Fixed Asset Subsidiary Ledger and add the amount of depreciation expense to the rest of the December depreciation. Make the appropriate adjusting entry.
3. The accounting clerk receives the bank statement on a monthly basis and reconciles it to the cash receipts and cash disbursements journals, identifying the necessary adjusting journal entries such as bank services charges, etc. *The bank statement for the General Checking Account (Account #111000) reports a balance of \$2,210,120.39 as of December 31, 2009.* (NOTE: You will need to obtain the bank statement balance for the current year from your instructor.) The accounting clerk notes that there are outstanding checks totaling \$88,582.80 (checks 19468, 19473, and 19475) and deposits in transit of \$27,363.31. In addition, the bank statement indicates bank charges of \$30, a returned check from Alota Wine Distributors in the amount of \$19,475.26, and a check printing fee of \$60. Reconcile the cash balance for the General Checking Account.
4. Reconcile the Accounts Receivable Subsidiary Ledger, Accounts Payable Subsidiary Ledger and the Perpetual Inventory Subsidiary Ledger to the General Ledger.

YEAR-END PROCEDURES

1. Prepare the unadjusted trial balance using the electronic year-end worksheet provided to you on the CAST web site (your instructor will provide you with the URL for this web site).
2. Prepare the year-end adjusting journal entries:
 - a. Calculate the allowance for bad debts using the net sales method. Experience indicates that 0.05% of net sales should be set aside for bad debts. Make the appropriate adjusting entry.
 - b. The calculation of federal income tax expense is a year-end adjusting entry but it cannot be made until all other entries have been made and net income before taxes has been determined. Therefore, you must first complete the year-end worksheet and calculate net income before taxes. Then calculate federal income tax expense and post the adjusting entry to the worksheet. (HINT: Use rates in effect as of January 20XX. You can find these rates in any tax text book or by referring to the instructions for Schedule J, Form 1120.)

3. Complete the remainder of the electronic year-end worksheet.
4. Prepare the financial statements including the income statement, the statement of retained earnings, balance sheet, and the statement of cash flows (using the indirect method).
5. Prepare and record the closing journal entries in the journal and general ledger.
6. Prepare the electronic post-closing trial balance worksheet.

NOTES TO THE INSTRUCTOR

- The solution was prepared assuming that all investments are considered trading securities and are, therefore, current assets. You might wish to make other assumptions or to alter your assumptions in different classes so that the answers for different classes are different.
- To avoid having students turn in other students' assignments from prior semesters, you should have them initial and sign each page of the booklet in ink prior to submitting it to you.
- If you are having your students complete the Excel assignment in the *Computerized Accounting Information Systems Module*, you might choose to omit step 4. The Excel assignment will have them prepare financial statements.
- The federal income tax withheld calculations contained in this Solutions Manual are reflective of the information contained in IRS Publication 15 for the year 2010.
- The solution for the YE spreadsheet, financial statements, and reconciliations are contained in the Excel solution manual.

SOLUTIONS GUIDE GENERAL JOURNAL

Date		GL Acct #	Explanation	Post Ref ^{6*}	Debit			Credit		
12	31	602100	FICA Tax Expense	GL54		443	84			
		602200	Medicare Tax Expense	GL54		103	81			
		223100	FICA Payable – Employer	GL51				443	84	
		223200	Medicare Payable – Employer	GL51				103	81	
			To accrue employee payroll taxes							
12	31	793000	Interest Expense	GL59		54	25			
		230000	Other Accrued Expenses Payable	GL51				54	25	
			To accrue monthly interest expense							
12	31	670000	Depreciation Expense	GL57	108	016	50			
		180000	Accumulated Depreciation	GL50				108	016	50
			To accrued depreciation for the month of December							
12	31	792000	Miscellaneous Expense	GL59		90	00			
		120000	Accounts Receivable	GL48	19	475	26			
		111000	Cash	GL48				19	565	26
			To record bank charges and returned check per monthly bank statement							
12	31	791000	Bad Debt Expense	GL59	10	972	74			
		129000	Allowance for Bad Debts	GL49				10	972	74
			To accrue bad debts							
12	31	711000	Federal Income Tax Expense	GL58	149	289	41			
		235000	Federal Income Taxes Payable	GL51				149	289	41
			To accrue federal income taxes							

*Note: Posting reference is "GL and Page Number." For example, GL52.

Initials _____
Date _____

GENERAL JOURNAL

Date		GL Acct #	Explanation	Post Ref*	Debit				Credit			
12	31	390000	Retained Earnings	GL49	20	018	520	29				
		510000	Cost of Goods Sold	GL50					11	543	473	15
		601000	Wages & Salaries Expense	GL51					1	972	322	74
		601500	Sales Commission	GL51						771	665	60
			Expense									
		602100	FICA Tax Expense	GL51						244	568	36
		602200	Medicare Tax Expense	GL51						57	197	43
		602300	FUTA Expense	GL51						7	392	00
		602400	SUTA Expense	GL51						22	176	00
		611000	Utilities Expense	GL52						325	954	67
		611300	Irrigation & Waste	GL52						230	910	91
			Disposal Expense									
		612000	Landscaping Expense	GL52						142	475	69
		621000	Advertising Expense	GL52						295	944	33
		623000	Marketing Expense	GL52						192	865	67
		624000	Festivals & Competitions	GL52						238	654	75
			Expense									
		631000	Telephone Expense	GL53						37	584	73
		632000	Internet & Computer	GL53						14	475	00
			Expense									
		633000	Postage Expense	GL53						35	117	66
		641000	Legal & Accounting Fees	GL53						88	425	50
		643000	Other Consulting Fees	GL53						12	500	00
		651000	Office Supplies Expense	GL53						58	689	68
		660000	Data Processing Expense	GL54						9	743	89
		670000	Depreciation Expense	GL54					1	200	849	16
		680000	Travel & Entertainment	GL54						169	405	86
		691000	Other Insurance Expense	GL54						115	058	55
		692000	Medical Insurance	GL54						192	154	80
		693000	Workmen's Compensation	GL54						139	750	00
			Insurance									
		699000	Other Employee Benefits	GL55						175	643	90
		700000	Dues & Subscriptions	GL55						32	076	00
		711000	Federal Income Tax	GL55					1	006	885	17
		712000	Property Tax Expense	GL55						19	875	00
		721000	Repairs & Maintenance	GL55						71	974	93
		731000	Automobile Expense	GL55						81	493	45
		740000	Lease Expense	GL56						113	607	56
		791000	Bad Debt Expense	GL56						10	972	74
		792000	Miscellaneous Expense	GL56						26	665	63
		793000	Interest Expense	GL56						359	969	78
			To close expense accounts									
			to retained earnings									

*Note: Posting reference is "GL and Page Number." For example, GL52.

Initials _____
Date _____

SALES REGISTER

Date		Customer	Invoice/ Document Number	A/R Acct #	Accounts Receivable 121000			Sales 410000			Inventory 145000			Cost of Goods Sold 510000							
<i>Dec</i>	<i>16</i>	<i>California Premium Beverage</i>	<i>15535</i>	<i>0504</i>		<i>28</i>	<i>209</i>	<i>60</i>		<i>28</i>	<i>209</i>	<i>60</i>		<i>18</i>	<i>204</i>	<i>48</i>		<i>18</i>	<i>204</i>	<i>48</i>	
						<i>28</i>	<i>209</i>	<i>60</i>		<i>28</i>	<i>209</i>	<i>60</i>		<i>18</i>	<i>204</i>	<i>48</i>		<i>18</i>	<i>204</i>	<i>48</i>	

Initials _____
Date _____

CASH RECEIPTS JOURNAL

Manual - 2

Buckless / Ingraham / Jenkins

Date						Description						Accounts Receivable 121000						Other Account						Post Ref*
												Cash 111000			Sales Discount 420000			A/R Acct #	Transaction Amount			Sales 410000		
12	19	CA Wine & Cheese					850	00								621000		850	00	GL55				
12	19	Pacific Distribution					19	576	80				0505	19	576	80								
12	19	Sonoma Distributors					16	086	00							16	086	00	510000	11	176	56	GL53	
																145000		- 11	176	56	GL49			
12	31	California Premium					27	363	31		846	29	0504	28	209	60								
							63	876	11		846	29		47	786	40		16	086	00		850	00	

*Note: Posting reference is "GL and Page Number." For example, GL52.

Initials _____
Date _____

PURCHASES JOURNAL

								Accounts Payable 210000							
Date		Vendor	Vendor Invoice #	Inventory 141000			G/L Acct #	Transaction Amount			Post Ref ^o	A/P Acct #	Transaction Amount		
12	22	Mendocino Vineyards	M7634	13	860	00						P0652	13	860	00
				13	860	00							13	860	00

*Note: Posting reference is "GL and Page Number." For example, GL52.

Initials _____
 Date _____

CASH DISBURSEMENTS JOURNAL

									Accounts Payable 210000			Other Account				
Date		Check Number	Description	Cash 111000			Inventory 141000		A/P Acct #	Transaction Amount		GL Acct #	Transaction Amount			Post Ref ^o
12	16	19257	Potter Valley Ford	4	750	00					170000	26	750	00	GL49	
											261000	-22	000	00	GL52	
12	17	19286	Seaside Distributors		61	11					430000		61	11	GL53	
12	22	12402	Pacific Gas & Electric	18	887	62					611000	18	887	62	GL55	
12	30	19468	Edward Jones Financial Services	25	000	00					191000	25	000	00	GL50	
12	31	19473	Mendocino Vineyards	13	582	80	277	20	P0652	13	860	00				
12	31	19474	Chateau Americana Payroll Acct	6	030	19					112000	6	030	19	GL48	
12	31	19475	Bank of Huntington	50	000	00					261000	50	000	00	GL52	
				118	311	72	277	20		13	860	00	104	728	92	

*Note: Posting reference is "GL and Page Number." For example, GL52.

Initials _____
 Date _____

PAYROLL JOURNAL¹

Date		Employee/ SSN	Hours: Regular/ Overtime		Pay: Regular/ Overtime			Gross Pay 601000			FICA Withheld 222200		Medicare Withheld 222300		Federal Income Tax 222100		Net Pay 112000			Check No.			
12	31	Anna C. Johnson			1	750	00																
		296-49-3438						1	750	00		108	50		25	38		85	71	1	530	41	7111
12	31	Jose G. Rodriquez			2	550	00																
		124-11-7755						2	550	00		158	10		36	98		182	90	2	172	02	7112
12	31	Thomas P. Bryan	96	00	1	440	00																
		014-39-4215	2	25		50	63	1	490	63		92	42		21	61		153	88	1	222	72	7113
12	31	Robert T. Hissom	96	00	1	368	00																
		349-43-6417						1	368	00		84	82		19	84		158	30	1	105	04	7114
					7	108	00																
						50	63	7	158	63		443	84		103	81		580	79	6	030	19	

¹ Use two lines for each employee. For example, for an hourly employee, the employee's name, regular hours and regular pay are written on the first line, while the social security number, overtime hours, overtime pay, and all other information are written on the second line.

Initials _____
Date _____

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER

0509	Alota Wine Distributors Pier 32, The Embarcadero San Francisco, CA 94111 Phone: (415) 975-8566								Terms: 3/15, net 30 Credit Limit:			
Date		Description	Debit			Credit			Balance			
12	15	Balance Forward							3	340	283	15
<i>12</i>	<i>31</i>	<i>GL3</i>	<i>19</i>	<i>475</i>	<i>26</i>				<i>3</i>	<i>359</i>	<i>758</i>	<i>41</i>

0501	Bock Wines and Vines Pier 19, The Embarcadero San Francisco, CA 94111 Phone: (415) 834-9675								Terms: 3/15, net 30 Credit Limit:			
Date		Description	Debit			Credit			Balance			
12	15	Balance Forward								39	824	24

0555	California Pacific Wine Pier 81, The Embarcadero San Francisco, CA 94111 Phone: (415) 827-8455								Terms: 3/15, net 30 Credit Limit:			
Date		Description	Debit			Credit			Balance			
12	15	Balance Forward								47	147	71

0504	California Premium Beverage 39848 South Street Santa Rosa, CA 95402 Phone: (707) 555-7451 Fax: (707) 555-7452								Terms: 3/15, net 30 Credit Limit:			
Date		Description	Debit			Credit			Balance			
12	15	Balance Forward										
<i>12</i>	<i>16</i>	<i>Invoice 15535</i>	<i>28</i>	<i>209</i>	<i>60</i>				<i>28</i>	<i>209</i>	<i>60</i>	
<i>12</i>	<i>31</i>	<i>Check 21803</i>				<i>28</i>	<i>209</i>	<i>60</i>		<i>0</i>	<i>00</i>	

Initials _____
 Date _____

0511	Diversita Wine and Beer Distributors 1328 L Street Sacramento, CA 95814 Phone: (916) 441-5517										Terms: 3/15, net 30 Credit Limit:						
Date		Description				Debit				Credit				Balance			
12	15	Balance Forward												1	885	031	06

0505	Pacific Distribution Co. 10034 Westborough Boulevard San Francisco, CA 94080 Phone: (415) 555-1532										Terms: 3/15, net 30 Credit Limit:						
Date		Description				Debit				Credit				Balance			
12	15	Balance Forward (Invoice 15243, 11/13/XX)				19	576	80							39	153	60
12	19	<i>Check 69712</i>								19	576	80		19	576	80	

0506	Seaside Distributors, Inc. 9835 West Hills Road Ukiah, CA 94080 Phone: (707) 555-3102										Terms: 3/15, net 30 Credit Limit:						
Date		Description				Debit				Credit				Balance			
12	15	Balance Forward															

0527	Ukiah Beer, Wines and Vines 782 Talmadge Street Ukiah, CA 95482 Phone: (707) 555-8247										Terms: 3/15, net 30 Credit Limit:						
Date		Description				Debit				Credit				Balance			
12	15	Balance Forward													15	231	10