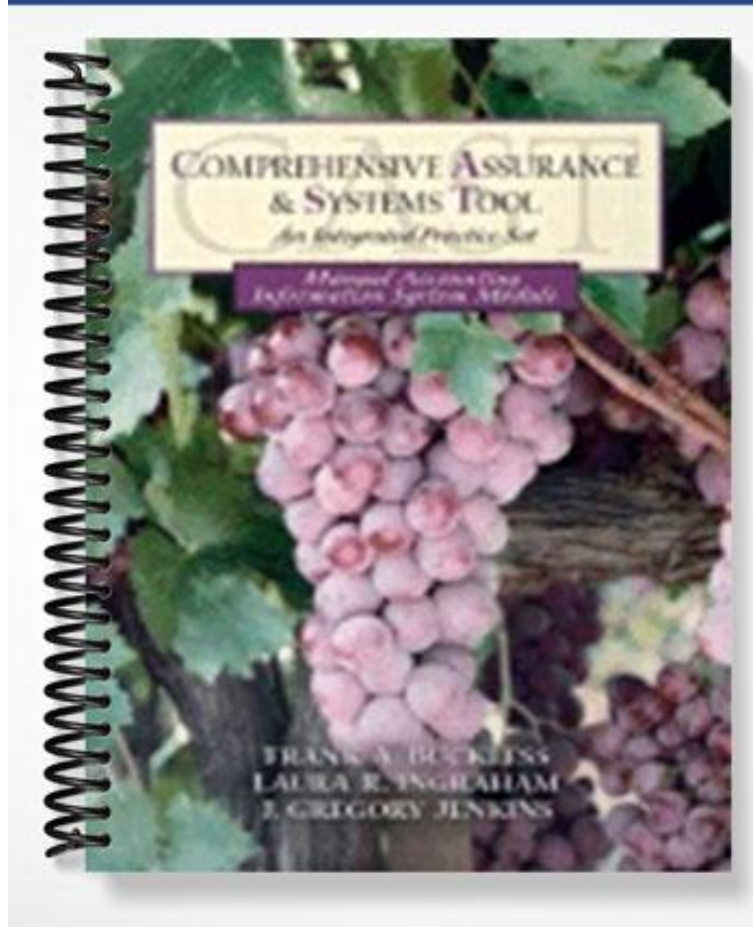


SOLUTIONS MANUAL



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.

TRANSACTIONS

The books have been posted through December 15, 2003. The following selected transactions have been extracted from the period December 16 through December 31, 2003 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. Supporting documentation for the transactions is provided behind the Year-End Procedures followed by all necessary journals and ledgers.

December	Transaction
-----------------	--------------------

16	Receive a purchase order from California Premium Beverage (page 16). 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.
16	Order 18,000 lbs. white grapes at \$1.05 per pound from Mendocino Vineyards. Complete Purchase Order No. 9682. Relevant data: date required - Dec. 22, shipper - Longhorn Shippers, Inc., buyer - Franz Bieler, supplier # - P0652.
16	Purchase a 2002 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, 2004. 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, 2003, in the amount of \$20,438.40. Seaside paid the invoice on November 19, 2003 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.
19	Receive \$850 dividend income from investment in Seagate shares (page 17). Enter the receipt on Cash Receipts Summary No. 5712 and record the cash receipt in the journals and ledgers.
19	Receive payment in full from Pacific Distribution Co. on Invoice No. 15243 dated November 13, 2003, in the amount of \$19,576.80 (page 18). 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 19) with payment (page 20) from Ukiah 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: The company records the journal entry for cost of goods sold and inventory for cash sales in the general journal.)
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 21). 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 22). Prepare Check No. 19402 and record the payment in the journals and ledgers.
December	Transaction

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 23). Prepare Check No. 19468 and record the purchase in the journals and ledgers.
31	Receive payment in full for the December 16 purchase from California Premium Beverage (page 24). Enter the cash receipt on Cash Receipts Summary No. 5718 and record the cash receipt in the journals and ledgers.
31	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	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 25-26. Prepare Check No. 19474 to transfer cash from the general cash account to the payroll account. Record the payroll transactions 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 \$22,000 installment note to Ford Credit (based on 365 days per year and interest starting to accrue on December 17, 2003). 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 office manager 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. (**Note:** The bank reconciliation has already been performed by the office manager and all necessary adjusting journal entries have been recorded in the journals and ledgers.)

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 2003.)
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

1. If you have the students prepare the closing entries, they will not have enough space to complete their closing entries in the general journal. There are two solutions to this. One is to have them prepare their closing entries in Excel, while working on the YE-Worksheet. The other is to make copies of the general journal and insert the copies in the Manual AIS Module booklet. This problem will be corrected in the next revision.
2. 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.
3. 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.

SOLUTIONS GUIDE GENERAL JOURNAL

Date		GL Acct #	Explanation	Post Ref ^{6*}	Debit			Credit		
12	19	510000	Cost of Goods Sold	GL52		11	176	56		
		141000	Inventory	GL46					11	176 56
			To record COGS							
			relating to Invoice C2489							
12	31	602100	FICA Tax Expense	GL51			443	84		
		602200	Medicare Tax Expense	GL51			103	81		
		223100	FICA Payable – Employer	GL48					443	84
		223200	Medicare Payable – Employer	GL48					103	81
			To accrue employee payroll taxes							
12	31	793000	Interest Expense	GL56			54	25		
		230000	Other Accrued Expenses Payable	GL48					54	25
			To accrue monthly interest expense							
12	31	670000	Depreciation Expense	GL54		108	016	50		
		180000	Accumulated Depreciation	GL47					108	016 50
			To accrued depreciation for the month of December							
12	31	791000	Bad Debt Expense	GL56		10	972	74		
		129000	Allowance for Bad Debts	GL46					10	972 74
			To accrue bad debts							
12	31	711000	Federal Income Tax Expense	GL55		149	289	41		
		235000	Federal Income Taxes Payable	GL48					149	289 41
			To accrue federal income taxes							
12	31	410000	Sales	GL49	22	308	726	75		
		491000	Dividend Income	GL50		4	850	00		
		492000	Interest Income	GL50		23	482	56		
		420000	Sales Discounts	GL50					347	587 65
		430000	Sales Returns/Allowances	GL50					15	649 58
		390000	Retained Earnings	GL49				21	973	822 08
			To close income accounts to retained earnings							

*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	019	280	29				
		510000	Cost of Goods Sold	GL50					11	543	473	15
		601000	Wages & Salaries Expense	GL51					1	972	322	74
		601500	Sales Commission Expense	GL51						771	665	60
		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 Disposal Expense	GL52						230	910	91
		612000	Landscaping Expense	GL52						142	475	69
		621000	Advertising Expense	GL52						296	794	33
		623000	Marketing Expense	GL52						192	865	67
		624000	Festivals & Competitions Expense	GL52						238	654	75
		631000	Telephone Expense	GL53						37	584	73
		632000	Internet & Computer Expense	GL53						14	475	00
		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 Insurance	GL54						139	750	00
		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	575	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 _____

