Instructor's Solutions Manual for Manual Module

Comprehensive Assurance & Systems Tool: An Integrated Practice Set

Fourth Edition

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INSTRUCTIONAL NOTES AND SOLUTIONS GUIDE

THE MANUAL ACCOUNTING INFORMATION SYSTEM:
The Winery at Chateau Americana

INSTRUCTIONAL OBJECTIVES

By the end of this Module, students will be able to:

- Prepare common business documents, accounting transactions and month-end and year-end transactions, including journal entries, journals, and ledgers in order to understand how the accounting cycle operates and to create the financial statements.
- Identify and interpret common control activities designed to capture, summarize, and report business activities.
- Explain the objectives of maintaining an audit trail.
- Identify deficiencies in the design of common business documents.
- Explain the importance of account reconciliations.

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 authenticate 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. Depending upon what course this Module is being used in and when in the semester it has been assigned, you might also find that it facilitates the process by going over some of the more complex transactions.

What's New?

The fourth edition contains three new transaction sets to allow the instructor to rotate through them from semester to semester and to provide some variety between the

transactions provided. 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 this Solution Manual under the bank reconciliation requirement in the Month-End Procedures of each transaction set.

The notation for the current year is denoted as XX to avoid confusion for the students. Prior year is notated as XW and the subsequent year is denoted as XY.

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 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 32 tons of white grapes at $1,875.00 per ton from Mendocino Vineyards. The item number for the white grapes is WG1003. Complete Purchase Order No. 9682. Relevant data: date required -– January 15, 20XY, shipper - Longhorn Shippers, Inc., buyer - Franz Bieler, supplier # - M0652.
16	Purchase a 20XW Ford truck for $26,540.00. The terms include a $4,540.00 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.
16	The Board of Directors of Chateau Americana authorized a $50,000 cash dividend payable on January 20th to the stockholders of record on January 15th.
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 *Returns and Allowances* on Page 6.)

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December	Transaction
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.
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 19 tons of red grapes at $2,279.00 per ton 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 $65.73 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 *accruals* 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 $2,190,989.75 as of December 31, 2017.* (**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 $88,097.31 (checks 19469, 19470, and 19471) and deposits in transit of $41,261.47. 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. Foot and cross foot the journals & registers. Post all monthly totals from the journals/registers to the General Ledger and post the individual entries in the General Journal to the General Ledger.

5. 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. Foot and cross foot the Payroll Subsidiary Ledgers.

3. 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.)

4. Complete the remainder of the electronic year-end worksheet.

5. 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).

6. Prepare and record the closing journal entries in the journal and general ledger.

7. 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 2017.

• 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*	Debit				Credit			
12	16	312000	Dividends - Common	GL51		50	000	00				
		239000	Dividends Payable	GL52						50	000	00
			To authorized and accrue dividends declared									
12	31	602100	FICA Tax Expense	GL54			530	16				
		602200	Medicare Tax Expense	GL54			123	99				
		223100	FICA Payable – Employer	GL51							530	16
		223200	Medicare Payable – Employer	GL51							123	99
			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	107	995	50					
		180000	Accumulated Depreciation	GL50						107	995	50
			To accrued depreciation for the month of December									
12	31	792000	Miscellaneous Expense	GL59			90	00				
		121000	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	989	33				
		129000	Allowance for Bad Debts	GL49						10	989	33
			To accrue bad debts									
12	31	711000	Federal Income Tax Expense	GL58		155	146	90				
		235000	Federal Income Taxes Payable	GL51						155	146	90
			To accrue federal income taxes									

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

Initials _____
Date _____

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GENERAL JOURNAL

Date		GL Acct #	Explanation	Post Ref*	Debit					Credit			
12	31	410000	Sales	GL53	22	342	575	63					
		491000	Dividend Income	GL53		4	000	00					
		492000	Interest Income	GL53		23	482	56					
		420000	Sales Discounts	GL53						348	218	60	
		430000	Sales Returns/Allowances	GL53						15	693	00	
		390000	Retained Earnings	GL52					22	006	146	59	
			To close income accounts										
			to retained earnings										
12	31	390000	Retained earnings	GL52		50	000	00					
		312000	Dividends – Common	GL52						50	000	00	
			To close out Dividends										
			account										

*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	040	234	38				
		510000	Cost of Goods Sold	GL50					11	557	835	23
		601000	Wages & Salaries Expense	GL51					1	973	715	17
		601500	Sales Commission Expense	GL51						771	665	60
		602100	FICA Tax Expense	GL51						244	654	68
		602200	Medicare Tax Expense	GL51						57	217	61
		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						295	944	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	828	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	012	742	66
		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	989	33
		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 _____

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SALES REGISTER

Date		Customer	Invoice/ Document Number	A/R Acct #	Accounts Receivable 121000			Sales 410000			Inventory 145000			Cost of Goods Sold 510000		
Dec	16	California Premium Beverage	15535	0504	49	241	28	49	241	28	27	793	68	27	793	68
					49	241	28	49	241	28	27	793	68	27	793	68

Initials _____
Date _____

CASH RECEIPTS JOURNAL

Date		Description	Cash 111000				Sales Discount 420000			Accounts Receivable 121000						Sales 410000			Other Account					Post Ref*
										A/R Acct #	Transaction Amount								GL Acct #	Transaction Amount				
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	28	903	20											28	903	20	510000	-15	949	44		GL54
																			145000	15	949	44		GL49
12	31	California Premium	47	764	04		1	477	24	0504		49	241	28										
			97	094	04		1	477	24			68	818	08		28	903	20			850	00		

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Initials _____
Date _____

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PURCHASES JOURNAL

Date		Vendor	Vendor Invoice #	Inventory 141000			Other Account				Accounts Payable 210000		
							G/L Acct #	Transaction Amount		Post Ref*	A/P Acct #	Transaction Amount	
12	22	*Mendocino Vineyards*	*M7634*	*43*	*301*	*00*					*M0652*	*43*	*301*	*00*
				43	*301*	*00*						*43*	*301*	*00*

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

Initials _____
Date _____

CASH DISBURSEMENTS JOURNAL

Date		Check Number	Description	Cash 111000				Inventory 141000			Accounts Payable 210000 A/P Acct #	Transaction Amount			Other Account GL Acct #	Transaction Amount			Post Ref*
12	16	19257	Potter Valley Ford	4	540	00									170000	26	540	00	GL49
															261000	-22	000	00	GL52
12	17	19286	Seaside Distributors		104	53									430000		104	53	GL53
12	22	12402	Pacific Gas & Electric	18	887	62									611000	18	887	62	GL55
12	30	19468	Edward Jones Financial Services	33	265	00									191000	33	265	00	GL50
12	31	19473	Mendocino Vineyards	42	434	98			866	02	M0652	43	301	00					
12	31	19474	Chateau Americana Payroll Acct	7	070	21									112000	7	070	21	GL48
12	31	19475	Bank of Huntington	50	000	00									261000	50	000	00	GL52
				156	302	34			866	02		43	301	00		113	867	36	

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

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