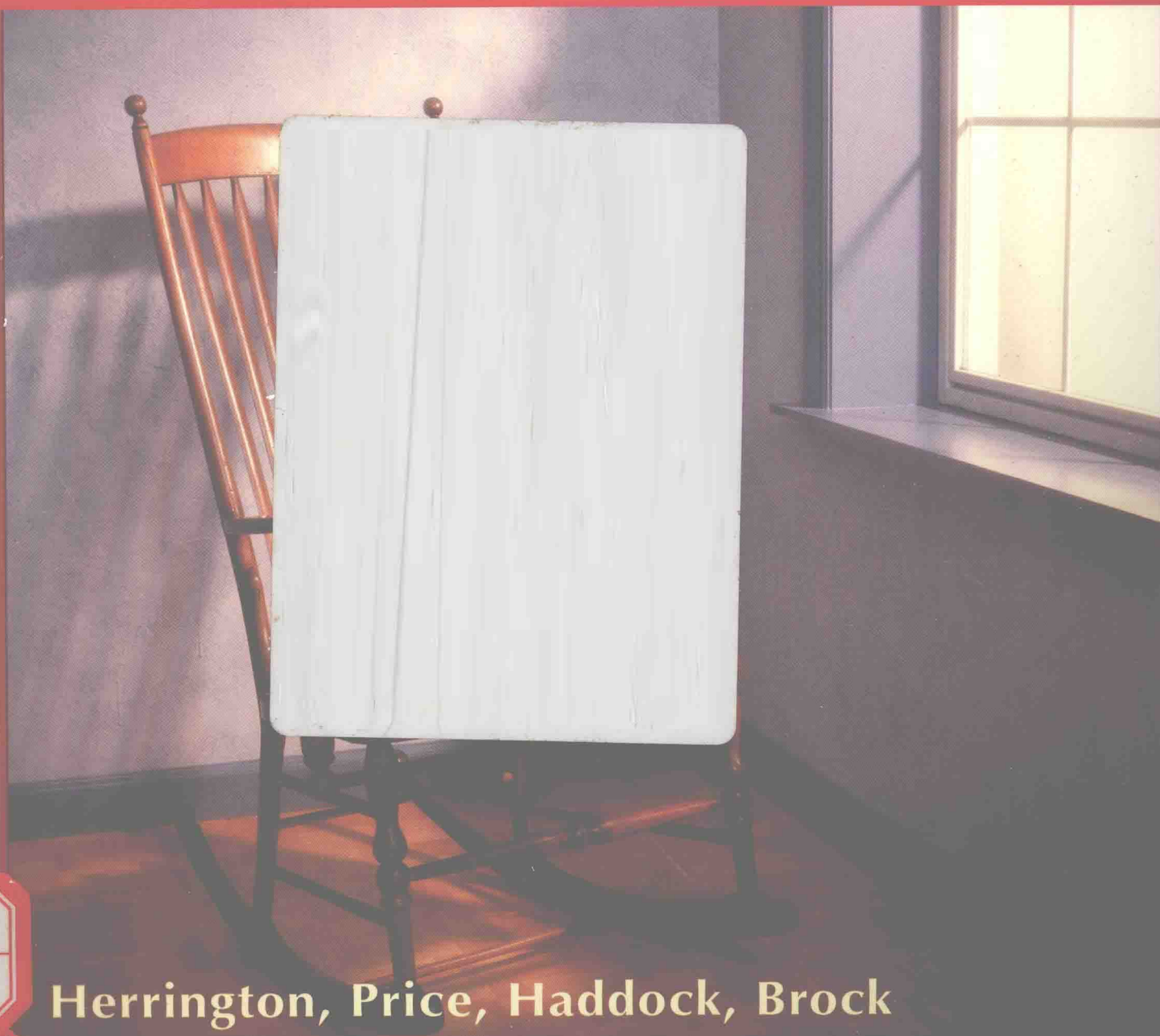


Wood n' Things

A Sole Proprietorship Merchandise Business



Herrington, Price, Haddock, Brock

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Linda Herrington, M.B.A., C.P.A.

Professor of Accounting
Community College of Allegheny County
Pittsburgh, Pennsylvania

John Ellis Price, Ph.D., C.P.A.

Professor and Chair
Department of Accounting
College of Business Administration
University of North Texas
Denton, Texas

M. David Haddock, Jr., Ed.D., C.P.A.

Professor of Accounting
Chattanooga State Technical Community College
Chattanooga, Tennessee

Horace R. Brock, Ph.D., C.P.A.

Distinguished Professor of Accounting Emeritus
College of Business Administration
University of North Texas
Denton, Texas



New York, New York Columbus, Ohio Woodland Hills, California Peoria, Illinois

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INTRODUCTION TO THE BUSINESS

BACKGROUND

Wood n' Things is a retailer of contemporary wooden furniture and household accessories. The business is a sole proprietorship owned by Amy Glenn, who started it five years ago after a successful career as an executive at a local department store. The firm occupies a distinctive modern building, which complements its line of furnishings for today's houses and apartments.

LOCATION

Wood n' Things is located on Walnut Street, a small shopping district in the Shadyside section of Pittsburgh, Pennsylvania. Shadyside is a popular residential area. Three colleges are within walking distance, and the area is only seven minutes, via an express bus route, from the Golden Triangle, Pittsburgh's business district.

Walnut Street has many small boutiques that sell a wide range of items including high-fashion clothing, sportswear, toys, original works of art, antiques, and home furnishings. This variety makes Walnut Street a popular place to shop, attracting both local residents and residents of other areas of Pittsburgh. On Saturdays, in particular, the street is crowded with people who come to shop, browse, and eat at local restaurants.

Amy Glenn, the owner of Wood n' Things, is actively involved in promoting Shadyside as a unique place to shop and live. She has been president of the Shadyside Chamber of Commerce and organized the Shadyside Art Festival, which is held each August on Walnut Street.

FACILITIES AND LAYOUT

Wood n' Things sells its merchandise in a three-story brick building that it owns. This building is modern in design and features large windows facing the street for displaying merchandise. A unique feature is an open area alongside the entrance, which extends to the top of the building. This area is enclosed by a railing and is fronted by a two-story glass window, allowing people passing on the street and those entering the building to view merchandise on all levels of the store. This distinctive architecture draws attention and attracts customers to the store.

The interior of the building contains furniture groupings showcasing Wood n' Things furniture and accessories. Shelving, wall units, and desks are featured on the lower level with tables and chairs on the second floor and accessories such as lamps, table decorations, and gift items on the first floor. Part of the lower level is occupied by the stockroom and an administrative office is located at the rear of the first floor. A counter with a cash register and wrapping materials is located in front of the office. This arrangement allows the cashier access to the office files and keeps the cash register in clear view of the office staff.

On the street behind the building is a large municipal parking garage that provides parking space for people who want to visit Wood n' Things and the other stores on Walnut Street.

Wood n' Things operates a delivery van so that it can provide delivery service to its customers. The van is kept in a nearby garage, where the firm rents space.

PERSONNEL

Wood n' Things is managed by Amy Glenn, the owner, and has a staff of nine full-time employees. This includes the position of accountant, for which you have just been hired.

Name	Title	Duties
Amy Glenn	Owner and Manager	Manages store operations and supervises the entire staff. Authorizes all orders for new merchandise, and makes pricing decisions when merchandise arrives. Verifies all invoices prior to payment, and signs all checks. Responsible for staff training. Handles customer service problems and problems with suppliers. Does selling work during busy periods.
David Watson	Sales Supervisor and Assistant Manager	Supervises other salespersons and does some selling. Serves as assistant manager when Amy Glenn is away from the store.
Lisa Cohen	Interior Design Consultant	Responsible for selecting new stock and determining the overall style of the store's merchandise. Provides decorating assistance for customers.
Sally Nardozzi	Salesperson	Responsible for sales on the first floor. Maintains first floor stock.
Thomas Stevenson	Salesperson	Responsible for sales on the lower level. Maintains lower level stock.
James Demeter	Salesperson	Responsible for sales on the second floor. Maintains second floor stock.
Mike Willingham	Stockroom Supervisor	Manages the stockroom. Inspects new merchandise, and prepares receiving reports. Arranges for the transfer of merchandise to sales areas and for deliveries to customers. Keeps stockroom records. Responsible for attaching price tags to new merchandise. Supervises the stockroom clerk.
Richard Kozminski	Stockroom Clerk	Assists the stockroom supervisor. Unpacks new merchandise, and moves it to sales areas as necessary. Prepares merchandise for delivery to customers, and drives the delivery van.

Eleanor Chae	Cashier	Receives cash from customers and processes all charge account and bank credit card sales. Prepares the daily bank deposit and takes it to the bank. Handles the petty cash fund. Responsible for running the computer programs that provide a daily cash register summary and a daily inventory update.	You	Accountant	Maintains accounting records and files. Prepares financial statements and special reports, as requested by the owner. Issues checks to pay bills and maintains the check-book. Reconciles the monthly bank statement. Assists the store's outside accounting firm with the annual audit.
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ORGANIZATION CHART

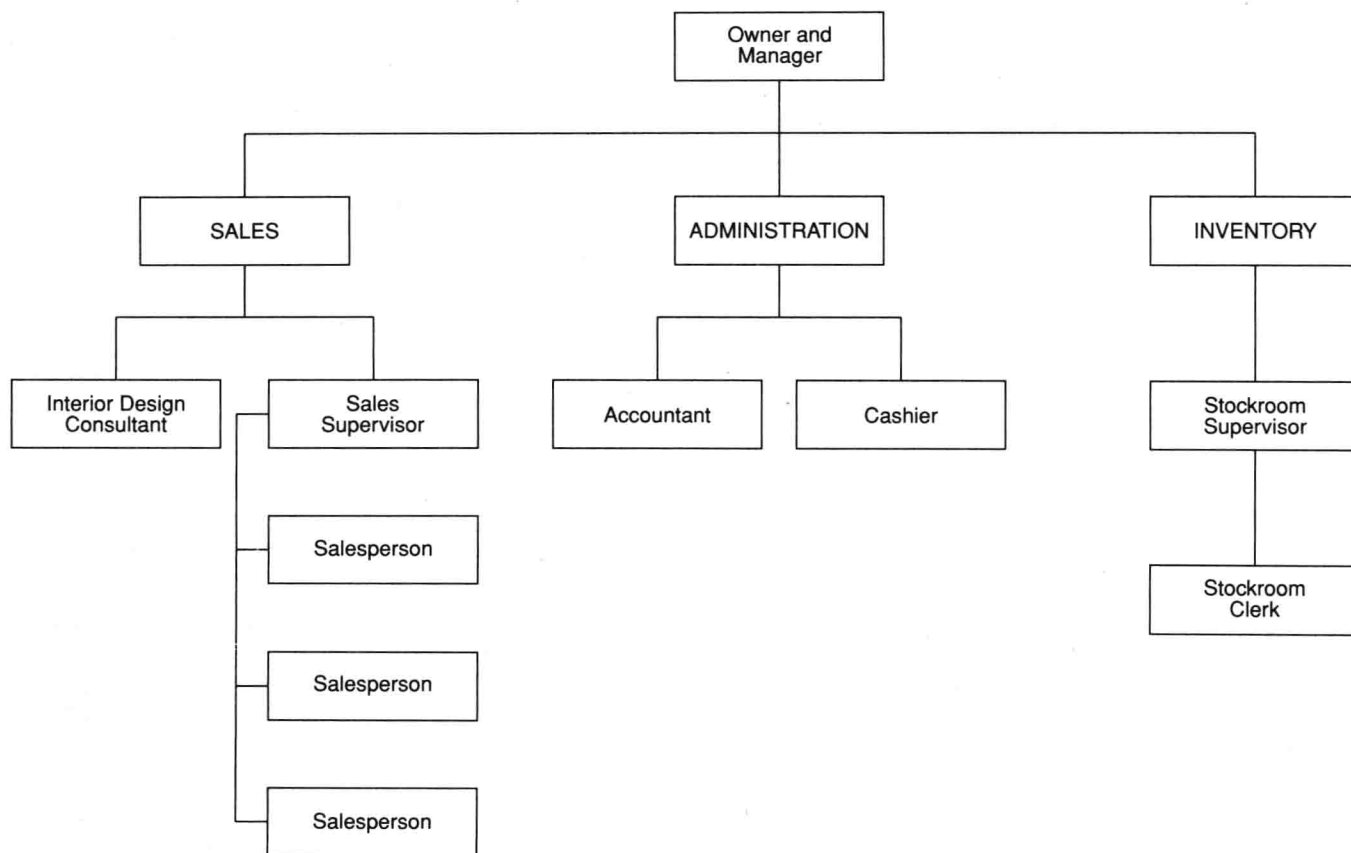


Figure 1

COMPANY PROCEDURES

The basic procedures that Wood n' Things uses to carry on its daily business activities are described in this section.

PURCHASING PROCEDURES

The purchasing procedures are as follows:

1. Wood n' Things utilizes its computer system to maintain its inventory records. (See Figure 2.) Data about purchases and sales are entered into the computer daily and the balance

of each inventory item is updated daily. A report is generated by the computer at the end of each day listing any item that has fallen below a pre-established minimum quantity. The cashier notifies the owner that this item of stock must be replenished.

DAILY INVENTORY TRANSACTIONS				5/20/X5
DATE	ORDER NO.	QUANTITY RECEIVED	QUANTITY SOLD	BALANCE
NO. 8-2468-21 DESK LAMP				
MAXIMUM 34 MINIMUM 10				
5/01/X5				12
5/03/X5			2	10
5/14/X5	PO 632	12		22
5/15/X5			4	18
5/17/X5			5	13
5/20/X5			3	10

2. The owner issues a purchase order to the manufacturer or wholesaler that handles the item. (See Figure 3.)

Figure 2

<h1>WOODⁿThings</h1>		PURCHASE ORDER NO. 653	
Hi-Tech Manufacturing Co. TO 621 Broadway New York, NY 10026-8243		DATE <u>May 20, 19X5</u> SHIP VIA <u>Fort Pitt Trucking Co.</u> TERMS <u>1/10, n/30</u> BY <u>Amy Glenn</u>	

Quantity	Catalog No.	Description	Unit Price	Amount
24	8-2468-21	Desk Lamp	26 00	624 00

3. When the merchandise arrives, the stockroom clerk unpacks it, and the stockroom supervisor inspects it and fills out a receiving report. (See Figure 4.)

Figure 3

<h1>WOODⁿThings</h1>		RECEIVED FROM		Receiving Report No. A9491	
<u>Hi-Tech Manufacturing Company</u> <u>621 Broadway</u> <u>New York, NY 10026-8243</u>				DATE RECEIVED <u>5/28/X5</u>	
				PURCHASE ORDER NUMBER <u>PO 653</u>	
SHIPPER <u>Fort Pitt Trucking Co.</u>			SHIPPED VIA <u>Truck</u>		ACCEPTED BY <u>MW</u>
QUANTITY RECEIVED	QUANTITY ACCEPTED	CATALOG NO.	DESCRIPTION		
24	24	8-2468-21	Desk Lamp		

Figure 4

4. The cashier, using the receiving report as documentation, enters the receipt of the merchandise into the computer inventory program. (See Figure 5.)

Figure 5

DAILY INVENTORY TRANSACTIONS				5/28/X5
DATE	ORDER NO.	QUANTITY RECEIVED	QUANTITY SOLD	BALANCE
NO. 8-2468-21 DESK LAMP				
MAXIMUM 34 MINIMUM 10				
5/01/X5				12
5/03/X5			2	10
5/14/X5	PO 632	12		22
5/15/X5			4	18
5/17/X5			5	13
5/20/X5			3	10
5/28/X5	PO 653	24		34

5. The owner prices the merchandise, and the stockroom supervisor attaches price tags to the individual items.

6. The stockroom clerk moves the merchandise to the designated area in the stockroom or to the appropriate sales area.

SALES PROCEDURES

The sales procedures are as follows.

1. A salesperson helps the customer to select merchandise and prepares a sales slip for the transaction.

2. The customer takes the sales slip to the store's cashier and either pays for the goods in cash, uses a bank credit card, or uses a credit card issued by Wood n' Things to people with charge accounts.

3. The cashier records the sale on the store's cash register. Wood n' Things has a modern electronic cash register system called a "store and forward" system. As individual transactions are entered each day, this system stores data about the transactions on a magnetic disk. At the end of the day, the disk is removed from the register and placed in the computer for processing. Thus, data is "forwarded" from the cash register system to the computer system. During the day, whenever a sale occurs, the cashier places the sales slip in a slot in the cash register and then records the following data about the sale: type of sale—cash, bank credit card, or charge account; customer number if a charge account sale; quantity and type of merchandise; and unit price. The cash register automatically extends the price and computes the sales tax and total price. This data, along with a description of the items sold, is printed on the sales slip by the cash register.

a. *Cash sales.* If the sale is for cash, the cashier will complete the transaction by collecting the cash and giving the customer a copy of the sales slip as a receipt.

b. *Bank credit card sales.* If the customer uses a bank credit card, credit authorization must be obtained before completing the transaction. The cashier passes the customer's card through a slot at the back of a small machine and enters the amount of the sale on the keyboard of the machine. This

machine is connected electronically through a telephone line to the bank's credit card authorization department. An "electronic authorization" is relayed to the store's machine if the sale is acceptable. If it is, the cashier completes the transaction by using the customer's credit card to imprint the name and account number on a special credit card sales slip and by having the customer sign the sales slip. A copy of this sales slip and a copy of the store's own sales slip are given to the customer as a record of the transaction.

c. *Charge account sales.* If the customer is using a Wood n' Things credit card, the cashier will check the files to be sure the customer has a satisfactory credit standing. For sales over \$500, the cashier must also obtain the owner's authorization before completing the sale. After verifying the customer's credit status, the cashier uses the customer's plastic Wood n' Things credit card to imprint the name and account number on the sales slip, has the customer sign the slip, and gives the customer a copy of the slip as a receipt.

4. If the customer requests home delivery, the cashier enters the necessary information on the sales slip and gives a copy to the stockroom supervisor, who arranges to have the stockroom clerk package and deliver the merchandise.

5. During the day, the cashier also uses the cash register to record cash collected from customers in settlement of their charge account balances. These amounts are received from the customers by mail and in person.

6. At the end of the day, the cashier removes the magnetic disk from the cash register and inserts it in the disk drive of the office computer. The disk drive is able to "read" the data stored on the disk. This data is then combined with file data from another disk and is processed by the computer system to produce a daily cash register summary.

The cash register summary lists all information about cash receipts in one section and all information about charge account sales in another section, as shown on Figure 6. Notice that there are three sources of cash receipts—cash sales, bank credit card sales, and collections on accounts receivable. The bank credit card sales are considered a source of cash receipts

because the sales slips from these sales are taken to the bank with a special deposit slip each day, and the bank credits the total amount shown on the sales slips to the store's checking account as if it were a cash deposit. (At the end of the month,

the bank deducts a fee for handling the credit card sales. This fee appears on the monthly bank statement that the firm receives.)

Figure 6

CASH REGISTER SUMMARY						05/29/X5
CASH RECEIPTS						
CUSTOMER NO.	SOURCE	ACCTS. REC. COLLECTED	AMOUNT OF SALE		SALES TAX	CASH RECEIVED
			FURNITURE & HOUSEWARES			
	CASH SALES		1950.00		117.00	2067.00
	BANK CREDIT CARD SALES		1280.00		76.80	1356.80
2984	ROSE DELANEY	400.00				400.00
6770	GEORGE SACHS	120.00				120.00
	TOTALS	520.00	3230.00		193.80	3943.80
CHARGE ACCOUNT SALES						
CUSTOMER NO.	CUSTOMER NAME		AMOUNT OF SALE		SALES TAX	TOTAL RECEIVABLE
			FURNITURE & HOUSEWARES			
4277	WILLIAM HUBBARD		2280.00		136.92	2416.92
6443	EDITH ROSS		361.00		21.91	382.91
	TOTALS		2641.00		158.83	2799.83

7. The magnetic disk taken from the cash register also contains data about the quantity and type of merchandise sold. The computer system uses this data to produce a daily summary of sales by item. This summary provides the informa-

tion that the cashier needs to update the inventory to reflect the goods sold. A sample of a daily summary of sales by item is shown on Figure 7 below. The daily inventory update follows on Figure 8.

DAILY SUMMARY OF SALES BY ITEM				5/29/X5
STOCK NO.	ITEM	QUANTITY SOLD		
4-9246-02	BOOKCASE	1		
5-8872-24	FOLDING CHAIR	8		
8-2468-21	DESK LAMP	2		
9-1480-92	END TABLE	5		

Figure 7

DAILY INVENTORY TRANSACTIONS					5/29/X5
DATE	ORDER NO.	QUANTITY RECEIVED	QUANTITY SOLD	BALANCE	
NO. 8-2468-21 DESK LAMP MAXIMUM 34 MINIMUM 10					
5/01/X5				12	
5/03/X5			2	10	
5/14/X5	PO 632	12		22	
5/15/X5			4	18	
5/17/X5			5	13	
5/20/X5			3	10	
5/28/X5	PO 653	24		34	
5/29/X5			2	32	

Figure 8

YOUR ROLE AS ACCOUNTANT

ACCOUNTING RECORDS

For the past two years you have been studying accounting at a local college. Ms. Glenn has asked you to begin working on June 1, 19X5, as the accountant for Wood n' Things, reporting to her. You have accepted the position.

Upon arriving for work on Monday, June 1, 19X5, you learn that the business has a fiscal year ending each June 30 and that your predecessor has journalized and posted all transactions through May 31 of the current fiscal year. You find that all records are up to date, were proved at the end of May, and are in good order. Ms. Glenn explains that you will have full responsibility for the checkbook, the five journals used, the general ledger, the subsidiary ledgers, and all other financial records and statements.

CHECKBOOK PROCEDURES

Recording Bank Deposits. All cash (including currency, coins, checks, and money orders) that the firm receives is processed by the cashier and deposited intact daily. The special sales slips for the bank credit card sales are also deposited each day. The bank's discount fee for handling these transactions is

automatically deducted from the business's checking account at the end of the month, and the amount deducted is shown on the monthly bank statement.

The cashier prepares two bank deposit slips—one for the cash processed through the cash register and one for the bank credit card sales slips. Occasionally, there will also be other types of cash receipts transactions that will require the preparation of a bank deposit slip. When the cashier returns from the bank, she will give you the validated deposit slips so that you can enter the necessary data in the checkbook.

The procedures for recording bank deposits in the checkbook are as follows. (Refer to the checkbook illustration shown below as you read about these procedures.)

- 1. If necessary, bring forward the balance from the previous checkbook page and enter it in the "Bal. Bro't For'd" space. (Note: The June 1, 19X5, balance has been entered on the first page in your checkbook.)
- 2. Record the total amount of the deposit slip in the "Deposits" section of the check stub. Also enter the date of the deposit on the check stub to the left of the word "Deposits."
- 3. Compute the new balance of the checking account, and record it on the "Total" line.

520	BAL BRO'T FOR'D	20414 80
19		
TO		
5/20	DEPOSITS	1310 40
FOR		
	TOTAL	21725 20
	THIS CHECK	
	OTHER TRANS. +/-	
	BALANCE	

WOOD n' THINGS
3308 Walnut Street
Pittsburgh, PA 15232-1827

No. 520
8-26
430

PAY TO THE ORDER OF

\$

DOLLARS

FOR USE IN BUSINESS SIMULATION ONLY

1 First National BANK
Shadyside Office, Pittsburgh, PA

For

043000261: 0520 092 4836

Issuing Checks. All expenditures of Wood n' Things, except petty cash payments, are made by check. The checks are prepared by you and signed by the owner.

The procedures for issuing checks and recording them in the checkbook are as follows. (Refer to the checkbook illustration shown below.)

- 1. Complete the check stub section first.
 - a. If necessary, bring forward the balance from the previous checkbook page and enter the balance amount in the "Bal. Bro't For'd" space.
 - b. Fill in the date, the name of the payee, and the reason for the payment on the check stub.
 - c. Record the amount of the check on the "This Check" line.
 - d. Compute the new balance of the checking account, and enter it on the "Balance" line.
 - e. The "Other Trans. +/-" line is used to record transactions other than deposits and checks, such as Bank Service Charges.

520	BAL BRO'T FOR'D	20414 80
May 21	19 X5	
TO Woodcraft, Inc.		
5/20	DEPOSITS	1310 40
FOR April invoices		
	TOTAL	21725 20
	THIS CHECK	860 00
	OTHER TRANS. +/-	
	BALANCE	20865 20

WOOD n' THINGS
3308 Walnut Street
Pittsburgh, PA 15232-1827

No. 520
8-26
430

PAY TO THE ORDER OF

\$

DOLLARS

FOR USE IN BUSINESS SIMULATION ONLY

1 First National BANK
Shadyside Office, Pittsburgh, PA

For

043000261: 0520 092 4836

2. After you complete the check stub section, prepare the check itself.

- Enter the date at the top of the check.
- Enter the name of the payee after the words *Pay to the Order of*.
- Write the amount of the check in figures in the space to the right of the dollar sign.
- Write the dollar amount of the check in words on the line below the name of the payee. Use the word *and* to separate the dollar amount from the cents,

and use a fraction for the cents, such as 25/100 for 25 cents. Use 00/100 if the check is for an even dollar amount. Draw a line from the fraction to the word *Dollars* in order to fill any empty space.

- Leave the signature line on the check blank. Only Amy Glenn is authorized to sign checks for the business.
- After you have written the check, remove it from the checkbook section and place it in the large envelope located on the inside of the back cover. In a real business situation you would forward all checks to Amy Glenn.

520	BAL BROT FORD	20414 80
May 21 19 x5		
TO Woodcraft, Inc.		
5/20	DEPOSITS	1310 40
FOR April invoices		
	TOTAL	21725 20
	THIS CHECK	860 00
	OTHER TRANS. +/-	
	BALANCE	20865 20

WOOD n' THINGS 3308 Walnut Street Pittsburgh, PA 15232-1827		No. 520 8-26 430
PAY TO THE ORDER OF	May 21 19 x5	\$ 860.00
Woodcraft, Inc.		
Eight hundred sixty and 00/100		DOLLARS
FOR USE IN BUSINESS SIMULATION ONLY		
1st National BANK Shadyside Office, Pittsburgh, PA		
For		
⑆043000261⑆ 0520 09204836⑈		

If you make an error when writing a check, void it by writing the word *Void* in large letters on both the check stub and the check. Use the next check to complete the transaction.

CASH RECEIPTS JOURNAL

At the close of business each day, the cashier uses the computer system to produce a daily cash register summary. These cash register summaries are located on pages 21-45 and can be removed for easier handling. You will record all the cash from cash sales, bank credit card sales, and accounts receivable collections listed on this summary in the cash receipts journal. Occasionally, there will also be other types of cash receipts transactions that must be entered in the cash receipts journal. After you have recorded the information from a summary, place it in the large envelope located on the inside of the back cover.

Credits to the customers' accounts in the accounts receivable subsidiary ledger are posted daily from the cash receipts journal. Items in the Other Accounts Credit column of this journal are posted at the end of each week. Summary postings of all column totals (except the total of the Other Accounts Credit column) are made at the end of the month.

Use 35 as the first page number for the cash receipts journal when you begin making entries. (Pages 1-34 were used to record the previous months' transactions.)

CASH PAYMENTS JOURNAL

You record all checks in the cash payments journal on a daily basis. Invoices and bills covering expenses are paid promptly upon receipt, and the transactions are entered in the cash payments journal immediately after the checks are prepared. Invoices covering purchases of merchandise for resale include a credit period and are therefore entered in the purchases journal when they are first received. These invoices are

paid later in accordance with the credit terms, and the checks issued are then recorded in the cash payments journal. The cashier handles petty cash payments, which are periodically reimbursed by a check that you prepare. The amounts involved are recorded in the cash payments journal when the reimbursement check is issued.

Debits to the creditors' accounts in the accounts payable subsidiary ledger are posted daily from the cash payments journal. Items in the Other Accounts Debit column of this journal are posted at the end of each week. Summary postings of all column totals (except the total of the Other Accounts Debit column) are made at the end of the month.

Use 35 as the first page number for the cash payments journal when you begin making entries. (Pages 1-34 were used to record previous months' transactions.)

SALES JOURNAL

The cashier records all charge account sales on the cash register. The cash register summary prepared by the computer system each day lists these sales and provides the information that you need to enter them in the sales journal. Charge account customers normally have 30 days in which to pay. Cash discounts are not granted.

Each day you post from the sales journal to the customers' accounts in the accounts receivable subsidiary ledger. You make monthly summary postings of the column totals to the appropriate accounts in the general ledger.

Use 35 as the first page number for the sales journal when you begin making entries. (Pages 1-34 were used to record previous months' transactions.)

PURCHASES JOURNAL

The owner verifies all invoices received from suppliers and then gives you the invoices to record. You enter the credit

purchases of merchandise for resale in the purchases journal. After the necessary entries are made, you file the invoices by due date so that you can issue checks in a timely manner.

Each day you post from the purchases journal to the creditors' accounts in the accounts payable subsidiary ledger. You make monthly summary postings of the column totals to the appropriate general ledger accounts.

Use 35 as the first page number for the purchases journal when you begin making entries. (Page 1-34 were used to record previous months' transactions.)

GENERAL JOURNAL

Any transactions that cannot be recorded in the special journals are entered in the general journal. This journal is also used for adjusting, closing, and reversing entries at the end of the fiscal year.

You post from the general journal at the end of the week. Use 35 as the first page number for the general journal when you begin making entries. (Pages 1-34 were used to record previous months' transactions.)

GENERAL LEDGER

Balance-form ledger sheets are used for the general ledger accounts. The previous accountant prepared a trial balance as

of May 31 to check the equality of the debits and credits in these accounts. The June 1 balances have been entered for your convenience. The chart of accounts is reproduced on page 91 for easy reference. (Note: Some of the accounts show no balances as of June 1.)

SUBSIDIARY LEDGERS

Wood n' Things has two subsidiary ledgers: an accounts receivable ledger and an accounts payable ledger.

Accounts Receivable Ledger. Accounts with individual customers are kept in alphabetical order on balance-form ledger sheets. The previous accountant proved this ledger against the Accounts Receivable account in the general ledger as of May 31. The June 1 balances have been entered for your convenience. Postings to this ledger are made daily from the sales journal and the cash receipts journal and weekly from the general journal.

Accounts Payable Ledger. Accounts with individual creditors are kept in alphabetical order using balance-form ledger sheets. The previous accountant proved this ledger against the Accounts Payable account in the general ledger as of May 31. The June 1 balances have been entered for your convenience. Postings to the accounts payable ledger are made daily from the purchases journal and the cash payments journal and weekly from the general journal.

SUMMARY OF ROUTINE ACCOUNTING PROCEDURES

The routine accounting procedures that you must perform for Wood n' Things during June are summarized below. The chart of accounts for the business appears on page 91.

DAILY PROCEDURES

The daily procedures include issuing checks, maintaining the checkbook, journalizing all transactions, and posting appropriate entries to the subsidiary ledgers. Daily postings ensure that the balances in the subsidiary ledger accounts are always current. As previously noted, the balances as of June 1 have already been entered in the ledgers. You are to begin your work with the recording of transactions for the month of June.

PAYROLL PROCEDURES

The full-time employees of Wood n' Things are paid semi-monthly—on the 15th and the last business day of each month. Wood n' Things uses Payroll Systems Inc., an automated payroll service company, to handle most of its payroll functions. This company prepares the semimonthly payroll, prepares quarterly and year-end payroll tax returns, and keeps an individual earnings record for each employee. By using an outside service company to handle payroll work, Ms. Glenn has more time to devote to the operations of her business. In

addition, the service company guarantees the accuracy of the payroll and relieves Ms. Glenn of the need to keep informed about changes in payroll tax rates and the requirements for filing payroll tax returns.

In its records, Payroll Systems Inc. has the name, address, marital status, number of withholding allowances, and hourly rate of each employee of Wood n' Things. Shortly before each payday, Ms. Glenn places a telephone call to the company to report the number of hours worked by each employee during the pay period. Payroll Systems Inc. then computes the gross earnings, deductions, and net pay for each employee; prepares a payroll register, a payroll summary, and payroll checks; and updates the employee earnings records. The company delivers the payroll register, summary, and checks the day before the employees are to be paid, and Ms. Glenn reviews all the documents for accuracy. She then signs the checks and distributes them to the employees.

For ease in maintaining its bank records, Wood n' Things uses a separate checking account just for payroll. Working from the payroll summary, you will issue a check from the regular checking account equal to the total net pay. This check will be deposited in the payroll account to cover the employees' individual paychecks. You will also use the payroll summary to journalize and post the accounting entries for payroll and payroll taxes.

END-OF-WEEK PROCEDURES

The routine procedures to be completed at the end of each week are outlined below.

1. Foot the amount columns in the cash receipts, cash payments, sales, and purchases journals. Enter the footings in small pencil figures immediately beneath the last line on which an entry has been made. Cross-foot to prove the equality of the debit and credit footings.

2. Determine the balance of the Cash account, and compare it with the checkbook balance. The procedure for determining the balance of the Cash account is as follows. Add the June 1 balance of the Cash account and the footing

from the Cash Debit column of the cash receipts journal. From this total, subtract the footing of the Cash Credit column of the cash payments journal. Verify that the cash balance computed equals the checkbook balance. If the two amounts do not agree, check your work and correct any errors before proceeding.

3. Post all individual entries from the general journal and from the Other Accounts columns of the cash receipts journal and the cash payments journal to the general ledger.

4. Answer the Audit Check questions. Your instructor will indicate how you can determine the accuracy of your answers to these questions.

NARRATIVE OF TRANSACTIONS

The transactions that took place at Wood n' Things during June 19X5 are listed in this section. You are expected to record each transaction in the order given. The business papers that you will handle are copies of the daily cash register summary, which are given on pages 21-45. Refer to the appropriate summary form as necessary to complete your work. The other business papers that the accountant would normally receive are not included, but the essential data from them are given in the narrative of transactions. The checkbook, journals, ledgers, working papers, and statement forms that you will need are provided on pages 49-129.

MONDAY, JUNE 1

- Trans. 1 Issue Check 529 for \$350 to Chatham Realty in payment of the June garage rent.
- Trans. 2 Issue Check 530 for \$525 to Allegheny Electric Company for electricity used at the store during May.
- Trans. 3 Received the daily cash register summary. Also received deposit slips totaling \$1,359.54.

TUESDAY, JUNE 2

- Trans. 4 Purchased merchandise from Butler Butcher Block Company for \$12,890; terms 30 days net; Invoice 5449 dated May 29.
- Trans. 5 Issue Check 531 for \$380 to Tri-State Office Machines, Inc. for purchase of a fax machine.
- Trans. 6 Received the daily cash register summary. Also received deposit slips totaling \$2,460.51.

WEDNESDAY, JUNE 3

- Trans. 7 Purchased merchandise from Carnegie Shelving Company for \$1,867; terms 2/10, n/30; Invoice 12496 dated June 2.
- Trans. 8 Issue Check 532 for \$460 to *Pittsburgh Gazette* for May newspaper advertising.
- Trans. 9 Received the daily cash register summary. Also received deposit slips totaling \$2,677.51.

THURSDAY, JUNE 4

- Trans. 10 Purchased merchandise from Danish Import Company for \$3,833; terms 30 days net; Invoice 8964 dated June 1.
- Trans. 11 Issue Check 533 for \$5,286.80 to Oxford European Design, Inc. for May invoices.

Trans. 12 Issue Check 534 for \$200 to Gray Hauling Company for May rubbish removal.

Trans. 13 Received the daily cash register summary. Also received deposit slips totaling \$3,344.72.

FRIDAY, JUNE 5

Trans. 14 Issue Check 535 for \$3,060 to First National Bank for deposit of amounts withheld from employees earnings for the semimonthly payroll period ended May 30 and employer's share of social security and medicare tax as follows:

Social Security Tax Withheld	\$ 553
Medicare Tax Withheld	127
Federal Income Tax Withheld	1,700
Social Security Tax—Employer's Share	553
Medicare Tax—Employer's Share	127

Debit the payment of employer's share of payroll taxes to Payroll Taxes Payable.

Trans. 15 Issue Check 536 for \$1,255.38 to Carnegie Shelving Company for a May invoice less the 2 percent discount. (Refer to the creditor's account to find the full amount of the invoice.)

Trans. 16 Issue Check 537 for \$825 to Highland Insurance Agency to pay the premium for a one-year fire insurance policy.

Trans. 17 Received the daily cash register summary. Also received deposit slips totaling \$1,485.06.

SATURDAY, JUNE 6

Trans. 18 Received the daily cash register summary. Also received deposit slips totaling \$1,787.16.

END-OF-WEEK PROCEDURES

Complete the end-of-week procedures. See top of this page.

AUDIT CHECK:

1. Checkbook balance should be \$21,859.50.
2. How much does Wood n' Things owe Carnegie Shelving Company as of June 6? _____
3. What were the total credit sales for the week ended June 6? _____
4. Check No. 531 to Tri-State Office Machines, Inc. was posted to what account? _____

MONDAY, JUNE 8

- Trans. 19 Issue Check 538 for \$3,252.15 to Hi-Tech Manufacturing Company for a May invoice less the 1 percent discount (Refer to the creditor's account to find the full amount of the invoice.)
- Trans. 20 Issue Check 539 for \$192.50 to Fort Pitt Trucking Company for freight charges on purchases from J & K Designs.
- Trans. 21 Issue Check 540 for \$210 to Pennsylvania Telephone Company for the monthly telephone bill.
- Trans. 22 Received the daily cash register summary. Also received deposit slips totaling \$6,741.74.

TUESDAY, JUNE 9

- Trans. 23 Purchased merchandise from Oxford European Design, Inc., for \$1,417; terms 30 days net; Invoice 6098 dated June 5.
- Trans. 24 Purchased merchandise from Woodcraft, Inc. for \$1,715; terms 30 days net; Invoice 809 dated June 8.
- Trans. 25 Issue Check 541 for \$3,570 to Pennsylvania State Department of Revenue for sales tax collected during May.
- Trans. 26 Received the daily cash register summary. Also received deposit slips totaling \$4,375.08.

WEDNESDAY, JUNE 10

- Trans. 27 Issue Check 542 for \$275 to Western Oil Company for gasoline used in the delivery van.
- Trans. 28 Received a check from Highland Insurance Agency for \$100 as a refund for overpayment of the fire insurance premium paid on June 5.
- Trans. 29 Received the daily cash register summary. Also received deposit slips totaling \$3,031.24. (This amount includes the refund for overpayment of the insurance premium.)

THURSDAY, JUNE 11

- Trans. 30 Purchased merchandise from Nordic Furniture Company for \$2,982; terms 2/10, n/30; Invoice 6409 dated June 9.

- Trans. 31 Issue Check 543 for \$14,129.60 to Butler Butcher Block Company for May invoices.

- Trans. 32 Received Credit Memorandum 211 for \$527 from Oxford European Design, Inc., for damaged furniture that was returned. The furniture was purchased on Invoice 6098 dated June 5.

- Trans. 33 Received the daily cash register summary. Also received deposit slips totaling \$2,123.60.

FRIDAY, JUNE 12

- Trans. 34 Issue Check 544 for \$510 to Pennsylvania Department of Revenue for state income tax withheld from employee earnings during May.

- Trans. 35 Issue Check 545 for \$1,829.66 to Carnegie Shelving Company for Invoice 12496 dated June 2 less 2 percent discount.

- Trans. 36 Received the daily cash register summary. Also received deposit slips totaling \$2,007.64.

SATURDAY, JUNE 13

- Trans. 37 Received the daily cash register summary. Also received deposit slips totaling \$4,315.26.

END-OF-WEEK PROCEDURES

Complete the end-of-week procedures.

AUDIT CHECK:

1. Checkbook balance should be \$20,485.15.
2. Check No. 537 to Highland Insurance Agency was posted to what account?
3. How much does Jean Alvarez owe Wood n' Things as of June 13?
4. How much does Wood n' Things owe Oxford European Design, Inc. as of June 13?

MONDAY, JUNE 15

- Trans. 38 Record the semimonthly payroll.

1. Make a general journal entry to record the total payroll for June 1-15. The payroll summary provided by the automated payroll service company is shown below.

PAYROLL SYSTEMS INC.**PAYROLL SUMMARY**

COMPANY NAME: WOOD n' THINGS
PAY PERIOD ENDING: JUNE 15, 19X5

DEPT. NO.	DEPARTMENT	GROSS EARNINGS	DEDUCTIONS				NET PAY
			SOCIAL SECURITY	MEDICARE TAX	FEDERAL INC. TAX	STATE INC. TAX	
601	SALES	6,000	390	90	1,400	180	3,940
602	OFFICE	1,540	100	23	230	46	1,141
603	STOCKROOM	1,230	80	18	185	37	910
TOTALS		8,770	570	131	1,815	263	5,991

- a. The business has separate expense accounts for sales, office, and stockroom salaries. The payroll summary lists the gross earnings by departments. Debit the amount for each department to the appropriate expense account.
 - b. Credit the total of each deduction to the appropriate liability account.
 - c. Credit the total net pay to Salaries Payable.
2. Make a general journal entry to record the employer's social security and medicare tax liability of \$701 (sum of employer's matching share of social security withheld of \$570 and medicare withheld of \$131). Debit Payroll Taxes Expense and credit Payroll Taxes Payable in accordance with the established procedure used at Wood n' Things. (An alternative accounting procedure is to credit the specific tax liability accounts.)
 3. Issue Check 546 for the total net pay to Wood n' Things Payroll account in order to transfer the necessary funds from the regular checking account. Enter this check in the cash payments journal, with the amount debited to Salaries Payable in the Other Accounts Debit column.
- Trans. 39 Issue Check 547 for \$1,700 to Amy Glenn, the owner, as a withdrawal for personal living expenses. Ms. Glenn makes a similar withdrawal at the end of each payroll period.
- Trans. 40 Received the daily cash register summary. Also received deposit slips totaling \$2,119.29.

TUESDAY, JUNE 16

- Trans. 41 Purchased merchandise from Butler Butcher Block Company for \$4,984; terms 30 days net; Invoice 8902 dated June 11.
- Trans. 42 Issue Check 548 for \$5,814 to Danish Import Company for a May invoice due tomorrow.
- Trans. 43 Received the daily cash register summary. Also received deposit slips totaling \$941.28.

WEDNESDAY, JUNE 17

- Trans. 44 Purchased merchandise from Nordic Furniture Company for \$2,021; terms 2/10, n/30; Invoice 9920 dated June 15.
- Trans. 45 Issue Check 549 for \$2,000 to J & K Designs to apply on account.
- Trans. 46 Gave Credit Memorandum 105 for \$20 to James Dolan, a charge account customer, for damaged merchandise sold to him on June 15. (NOTE: Do not debit Sales Tax Payable in connection with this transaction. When Wood n' Things grants an allowance for damaged goods, the firm absorbs the total loss, including the sales tax. This practice is good for customer relations.)
- Trans. 47 Received the daily cash register summary. Also received deposit slips totaling \$2,034.92.

THURSDAY, JUNE 18

- Trans. 48 Purchased merchandise from Danish Import Company for \$3,529; terms 30 days net; Invoice 9113 dated June 16.
- Trans. 49 Issue Check 550 for \$178.25 to Manchester Freight Company for freight charges on furniture purchased from Butler Butcher Block Company.
- Trans. 50 Issue Check 551 for \$2,922.36 to Nordic Furniture Company for Invoice 6409 less the 2 percent discount.
- Trans. 51 Received a check for \$10,600 from North Side Savings and Loan Association because a short-term investment in a certificate of deposit matured. The principal (face value) of the certificate of deposit was \$10,000 and the interest earned was \$600.
- Trans. 52 Received the daily cash register summary. Also received deposit slips totaling \$11,886.84. (This amount includes the principal and interest from the certificate of deposit that matured.)

FRIDAY, JUNE 19

- Trans. 53 Issue Check 552 for \$3,217 to First National Bank for deposit of amounts withheld from employees earnings for the semimonthly payroll period ended June 15 and employer's share of social security and medicare tax as follows:
- | | |
|--------------------------------------|--------|
| Social Security Tax Withheld | \$ 570 |
| Medicare Tax Withheld | 131 |
| Federal Income Tax Withheld | 1,815 |
| Social Security Tax—Employer's Share | 570 |
| Medicare Tax—Employer's Share | 131 |
- Debit the payment of employer's share of payroll taxes to Payroll Taxes Payable.

- Trans. 54 Issue Check 553 for \$1,560 to Monroeville Savings and Loan Association for the monthly payment of \$600 principal and \$960 interest due on the mortgage on the store building.
- Trans. 55 Received Credit Memorandum 1863 for \$250 from Nordic Furniture Company as an allowance to compensate for the shipment of chairs in the wrong color. These chairs were purchased on Invoice 9920 dated June 15.
- Trans. 56 Received the daily cash register summary. Also received deposit slips totaling \$1,841.22.

SATURDAY, JUNE 20

- Trans. 57 Received the daily cash register summary. Also received deposit slips totaling \$1,951.46.

END-OF-WEEK-PROCEDURES

Complete the end-of-week procedures.

AUDIT CHECK:

1. Checkbook balance should be \$17,877.55.
2. What is the balance of the Short-Term Investments account as of June 20?

3. How much does James Dolan owe Wood n' Things as of June 20?

4. What is the balance of the Payroll Taxes Payable account as of June 20?

MONDAY, JUNE 22

Trans. 58 Issue Check 554 for \$3,833 to Danish Import Company for Invoice 8964 dated June 1.

Trans. 59 Purchased merchandise from Nordic Furniture Company for \$3,924; terms 2/10, n/30; Invoice 9987 dated June 19.

Trans. 60 The account receivable of \$112.87 owed by James Tashiko appears to be uncollectible, and the owner has instructed that it is to be written off. (The firm uses the allowance method to write off uncollectible accounts.)

Trans. 61 Received the daily cash register summary. Also received deposit slips totaling \$1,926.87.

TUESDAY, JUNE 23

Trans. 62 Issue Check 555 for \$890 to Oxford European Design, Inc., for Invoice 6098 dated June 5 less Credit Memorandum 211.

Trans. 63 Received the daily cash register summary. Also received deposit slips totaling \$2,012.51.

WEDNESDAY, JUNE 24

Trans. 64 Purchased merchandise from Carnegie Shelving Company for \$1,483; terms 2/10, n/30; Invoice 20249 dated June 22.

Trans. 65 Issue Check 556 for \$1,735.58 to Nordic Furniture Company for Invoice 9920 dated June 15 less Credit Memorandum 1863 and the 2 percent discount.

Trans. 66 Received the daily cash register summary. Also received deposit slips totaling \$5,054.08.

THURSDAY, JUNE 25

Trans. 67 Issue Check 557 for \$110 to William Sloan, attorney, as a legal fee for his efforts to collect an overdue account.

Trans. 68 Received the daily cash register summary. Also received deposit slips totaling \$3,336.88.

FRIDAY, JUNE 26

Trans. 69 Purchased merchandise from Oxford European Design, Inc., for \$621; terms 30 days net; Invoice 8821 dated June 23.

Trans. 70 Gave Credit Memorandum 106 for \$97.52 to Kim Lee, a charge account customer, for a return of merchandise sold to her on June 23. DO NOT DEBIT SALES TAX PAYABLE.

Trans. 71 Issue Check 558 for \$92 to Western Oil Company for gasoline used in the delivery van.

Trans. 72 Received the daily cash register summary. Also received deposit slips totaling \$1,705.54.

SATURDAY, JUNE 27

Trans. 73 Received the daily cash register summary. Also received deposit slips totaling \$1,499.90. NOTE: Since there are only two more business days in this month, defer the end-of-week procedures until the close of business on Tuesday, June 30.

MONDAY, JUNE 29

Trans. 74 Issue Check 559 for \$12,890 to Butler Butcher Block Company for Invoice 5449 dated May 29.

Trans. 75 Issue Check 560 for \$5,040 to First National Bank to repay a 30-day note payable dated May 29. The principal is \$5,000 and the interest is \$40.

Trans. 76 Received the daily cash register summary. Also received deposit slips totaling \$1,704.48.

TUESDAY, JUNE 30

Trans. 77 Record the semimonthly payroll. Make the general journal entries to record the June 16-30 payroll and the employer's social security and medicare tax liability. Issue Check 561 for the total net pay to Wood n' Things Payroll Account. Enter this check in the cash payments journal, debiting Salaries Payable in the Other Accounts Debit column. Obtain the necessary information from the payroll summary shown below.

PAYROLL SYSTEMS INC.

PAYROLL SUMMARY

COMPANY NAME: WOOD n' THINGS
PAY PERIOD ENDING: JUNE 30, 19X5

DEPT. NO.	DEPARTMENT	GROSS EARNINGS	SOCIAL SECURITY	MEDICARE TAX	DEDUCTIONS		NET PAY
					FEDERAL INC. TAX	STATE INC. TAX	
601	SALES	6,200	403	93	1,426	186	4,092
602	OFFICE	1,480	96	22	222	44	1,096
603	STOCKROOM	1,230	80	18	185	37	910
TOTALS		8,910	579	133	1,833	267	6,098

- Trans. 78 Issue Check 562 for \$1,700 to Amy Glenn as her withdrawal for the payroll period.
- Trans. 79 Issue Check 563 for \$46 to Eleanor Chae, cashier, to reimburse the petty cash fund for the following expenditures:
- | | |
|------------------|-----------|
| Store Supplies | \$11 |
| Office Supplies | 12 |
| Delivery Expense | <u>23</u> |
| | \$46 |
- Trans. 80 Received the daily cash register summary. Also received deposit slips totaling \$3,078.66.

END-OF-WEEK PROCEDURES

Complete the end-of-week procedures.

AUDIT CHECK:

1. Checkbook balance should be \$5,761.89.
2. What is the balance of the Allowance for Uncollectible Accounts account as of June 30?
3. Check No. 563 to reimburse the Petty Cash Fund was debited to what account(s)?
4. How much does Wood n' Things owe Nordic Furniture Company as of June 30?

MONTHLY PROCEDURES

RECONCILING THE BANK STATEMENT

Complete the following monthly procedures.

The June bank statement received by Wood n' Things is shown below. Use the two-column analysis paper given on page 75 to prepare a bank reconciliation as follows.

<i>First National Bank</i>					
Pittsburgh, PA					
Wood n' Things 3308 Walnut Street Pittsburgh, PA 15232			ACCOUNT NUMBER 043000261 PERIOD ENDING June 30, 19X5		
Checks	Checks	Checks	Deposits	Date	Balance
				June 1	21,087.18
			1,359.54	2	22,446.72
			2,460.51	3	24,907.23
			2,677.51	4	27,059.74
525.00			3,344.72	5	30,054.46
350.00			1,485.06	8	27,654.52
825.00	3,060.00		1,787.16	8	29,441.68
			6,741.74	9	30,896.62
5,286.80			4,375.08	10	34,891.70
380.00			3,031.24	11	37,252.94
210.00	460.00		2,123.60	12	34,551.16
3,570.00	1,255.38		2,007.64	15	18,667.05
3,252.15	510.00	14,129.60	4,315.26	15	22,982.31
			2,119.29	16	23,401.60
1,700.00			941.28	17	18,076.88
5,991.00	275.00		2,034.92	18	20,111.80
			11,886.84	19	30,168.98
1,829.66			1,841.22	22	25,870.84
2,922.36	3,217.00		1,951.46	22	27,822.30
			1,926.87	23	23,742.67
5,814.00	192.50		2,012.51	24	22,195.18
2,000.00	1,560.00		5,054.08	25	27,249.26
			3,336.88	26	28,740.56
1,735.58	110.00		1,705.54	29	26,521.10
92.00	3,833.00		1,499.90	29	28,021.00
			1,704.48	30	11,622.17
5,040.00	12,890.00	173.31 SC			
Beginning Balance	Total Amount of Deposits	Total Amount of Checks Paid	Total Charges	Ending Balance	
21,087.18	73,724.33	83,016.03	173.31	11,622.17	
	Number of Deposits Made	Number of Checks Paid	Number of Other Charges		
	25	29	1		
Codes: CC Certified Check OD Overdrawn DM Debit Memorandum RI Returned Item EC Error Correction SC Service Charge BB Bank Transfer			Please examine this statement upon receipt and report at once if you find any difference. If no error is reported in ten days, the account will be considered correct. All items are subject to final payment.		

1. Record the balance for June 30, 19X5 shown on the bank statement.
2. Since the firm deposits all of its cash receipts intact on a daily basis, compare the total cash receipts for each day listed in the checkbook to the deposits listed on the bank statement. Place check marks next to the checkbook amounts that agree with the reported deposits. List on the reconciliation any deposit not shown on the bank statement and add the total deposits in transit to the bank balance.
3. Compare the checks listed in the checkbook with those that appear on the bank statement. Place check marks beside the amounts in the checkbook to show which amounts agree. List on the reconciliation the numbers and amounts of any checks that have not yet been paid by the bank. Subtract the total outstanding checks from the bank balance.
4. Place double rules under the adjusted bank balance.
5. Record the checkbook balance as of June 30, 19X5.
6. List the service charge deducted by the bank for processing bank credit card transactions. Subtract this amount from the book balance.
7. Place double rules under the adjusted book balance.

This amount should agree with the adjusted bank balance. If it does not, verify your work before proceeding.

Record the bank service charge in the checkbook. Enter the amount of the service charge on the "Other Trans. + / -" line after the last check written. Put parentheses around the amount to indicate that the service charge amount is to be subtracted from the balance. Then compute the new cash balance by subtracting the service charge from the previous balance.

In addition, record the bank service charge as a "noncheck" entry in the cash payments journal. Debit Discount Expense on Bank Credit Card Sales, and credit Cash. Post the debit entry to the appropriate general ledger account. Foot the amount columns in the cash payments journal again. Enter the

footings in small pencil figures, and cross-foot to prove the equality of the debit and credit amounts.

END-OF-MONTH PROCEDURES

All regular transactions for the month of June have now been recorded. Complete the following end-of-month procedures.

1. Since the footings have been entered and proved in each special journal, total and rule these journals.
2. Verify that all individual postings to the general ledger have been made from the general journal and the Other Accounts columns of the cash receipts and cash payments journals.
3. Make the required summary postings of the column totals from the special journals (except the totals of the Other Accounts columns) to the proper general ledger accounts.
4. Prepare a schedule of accounts receivable as of June 30, 19X5, and prove the total by comparing it with the balance of the Accounts Receivable account (\$15,909.13). If the two amounts do not agree, check your work before proceeding.
5. Prepare a schedule of accounts payable as of June 30, 19X5, and prove the total by comparing it with the balance of the Accounts Payable account (\$19,352.50). If the two amounts do not agree, check your work before proceeding.
6. Prepare a trial balance to prove the accuracy of the general ledger accounts as of June 30, 19X5. Use the ten-column worksheet. This will enable you to save time in completing the end-of-year procedures. List the titles of all general ledger accounts, including Income Summary 399, whether or not the accounts have balances. Verify the equality of the debit and credit totals. If these totals are not equal (\$1,124,950.72), check your work before proceeding.

END-OF-YEAR PROCEDURES

The fiscal year of Wood n' Things ends on June 30. You are now ready to perform the necessary end-of-year procedures.

THE WORKSHEET AND FINANCIAL STATEMENTS

1. Record the following adjustments on the worksheet.
 - a-b. Enter the adjustments for merchandise inventory on the worksheet. The ending merchandise inventory is \$62,738. Use the letters *a* and *b* for these adjustments.
 - c. The loss from uncollectible accounts is estimated at 1/2 of 1 percent of net credit sales. An analysis of the year's sales shows net credit sales to be \$213,698. Make an adjustment for the estimated loss from uncollectible accounts. Use the letter *c* to identify this adjustment.
 - d. On April 1, 19X5, Wood n' Things purchased a one-year, \$10,000 U.S. Treasury note that has an interest rate of 6 percent. The firm will receive the interest in cash at the end of each six-month period. Therefore it is

necessary to accrue the interest earned for April, May and June 19X5. Use the letter *d* to identify this adjustment. (Use the formula $\text{Principal} \times \text{Rate} \times \text{Time}$ to compute the accrued interest.)

- e. Analysis of the firm's insurance policies shows that \$3,145 of the premiums currently recorded in the Prepaid Insurance account represents coverage that has expired. Record an adjustment for the expired amount. Use the letter *e* to identify this adjustment.
- f. A physical inventory of the store supplies shows items totaling \$480 on hand as of June 30. Make an adjustment for the store supplies used during the fiscal year. Identify this adjustment with the letter *f*.
- g. A physical inventory of the office supplies shows items totaling \$170 on hand as of June 30. Make an adjustment for the office supplies used during the fiscal year. Identify this adjustment with the letter *g*.