

Study Unit

Basswood Furniture Project

PART A—PUTTING YOUR ACCOUNTING KNOWLEDGE INTO PRACTICE **1**

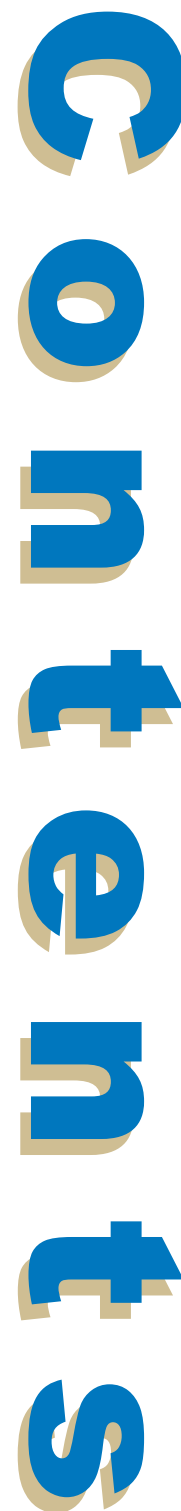
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Basswood Furniture Project

PART A—PUTTING YOUR ACCOUNTING KNOWLEDGE INTO PRACTICE

Congratulations! Throughout your studies you've learned various accounting procedures and what can occur throughout an entire accounting cycle. You're now ready to put your newfound knowledge to practical use. Although the basic procedures will always remain the same, you may be required to adapt the skills you've obtained to suit the specific needs of your employer's specialized business. Keep in mind, however, that the basic procedures will always remain the same. It's now time to put all of your knowledge and expertise into practice.

Characteristics of a Good Bookkeeper

Traits that make for a good bookkeeper are accuracy, efficiency, and perseverance.

- **Accuracy.** The more accurate a bookkeeper is the fewer mistakes he or she makes. Although no one is perfect, if Bookkeeper A is accurate only 75% of the time and Bookkeeper B is accurate 90% of the time, Bookkeeper A will spend more time and resources correcting mistakes. No one can be 100% accurate. However, the degree of accuracy with which a bookkeeper completes his or her work does reflect upon the quality of the bookkeeper.

- **Efficiency.** This factor is closely related to accuracy. The more efficient a bookkeeper is, the more time he or she will save. Time is money.
- **Perseverance.** Anyone can be a data entry operator trained to input information into a computer system. However, what happens when that information is entered incorrectly? What separates a data entry person from a good bookkeeper is the ability to recognize incorrect information (e.g., debits don't equal credits), find the problem, and then correct it. This process sometimes requires perseverance. That is, you may not be able to find the problem the first time you look for the mistake. The books of accounting need to be 100% accurate. A good bookkeeper will keep looking when he or she knows that something isn't right.

Bookkeeping Manually versus Using Computer Software

This course isn't aimed at teaching you how to use software. Instead, the emphasis is on learning bookkeeping. Why learn to keep books *manually* (by hand) instead of using a spreadsheet or accounting software such as Peachtree or QuickBooks? Suppose an employer must fill a bookkeeping position. Applicant A can keep books manually but doesn't know how to use accounting software. Applicant B has taken a course on how to use accounting software but has never kept books manually. Who will the employer hire? Applicant A. Why?

First, chances are that the software the company uses is customized. Therefore, the employer will need to spend a few days teaching the use of the software to whoever is hired. Peachtree and QuickBooks make up only a small percentage of the accounting software marketplace for small businesses, let alone midsized and large businesses. Instead, the vast majority of industries use accounting software that has been created specifically for the needs of that particular industry.

Second, if Applicant B makes a mistake when entering data, he or she won't understand the underlying fundamentals and processes of bookkeeping to be able to correct the mistake. Therefore, the employer would need to spend months teaching Applicant B what Applicant A already knows.

For this project, you're required to complete the assigned tasks manually. The advantage to the manual completion method is that it gives you insight into the accounting process—journalizing transactions, classifying data in the General Ledger (G/L), and using the ledger data to produce financial statements. It's important that you understand this overall process. Journal forms, G/L accounts, worksheets, and financial statement forms will be provided for you, along with realistic examples of the documents that a bookkeeper in a typical business would maintain.

If you wish to learn how to use an accounting software program, there are numerous books, videos, seminars, and courses available, from the software developers as well as third parties. However, to use the software effectively you must first have bookkeeping skills. Once you've completed the graded project manually, you're encouraged to pursue learning how to use accounting software.

The Basswood Furniture Bookkeeping Assignment

The Basswood Furniture Bookkeeping Project is designed to simulate the transactions that occur in an office environment. Everything you need to complete the project is included in this Basswood Furniture Project package.

In this project, you'll be the bookkeeper for Basswood Furniture, a sole proprietorship that specializes in home furnishings and accessories. First, you'll need to set up the initial books of accounting. Next, you'll record all the indicated transactions into the appropriate journals and post them accordingly. Then you'll prepare a worksheet, create the necessary financial statements for the company's calendar year end, and finally close the accounting period. When you've completed the required financial statements, you'll submit them to the school for grading.

The books of accounting for Basswood Furniture must be completed manually, and the financial statements submitted in the proper format for grading. You'll upload the following financial statements according to the instructions found in this study unit:

- **Balance sheet**
- **Income statement**

The other project materials aren't necessary for grading the project. *Don't* send them to the school.

Instructions

This project is a simulation of an actual accounting period. While no two businesses are exactly alike, this project is a representation of the types of transactions and procedures you'll encounter in business bookkeeping. The only difference is that you'll encounter more of them in the normal course of business. For example, in the project you may make a deposit with only two or three checks. In an actual business, your deposit can easily have 15 or 20 checks. Whether you have 2–3 or 15–20, it's all the same. Volume *doesn't* make for different accounting procedures in most cases.

What you've learned throughout the program will be used in completing this project. Any concepts that haven't been covered during the program will be addressed during the course of the project. Therefore, if you're unsure about what to do, go back through the program materials and workbooks. Review the concept and apply your understanding to the situation as presented in the instructions.

Everything you need to complete the project is contained within the project materials in an orderly fashion. The best way to understand what to do for this project is to read through the instructions at least once or twice before attempting to begin the project. This will allow you to become familiar with what needs to be done and how all the parts of the project (forms, journals, ledgers, financial statements, etc.) fit together.

Important Note

Because this project is a simulation, you won't perform certain actions in the instructions. For example, you won't put checks in the mail or go to the bank to make a deposit. However, you *will* perform the bookkeeping functions of writing the checks, filling out the deposit ticket, etc. Instructions that you obviously can't perform due to this being a simulation, you'll imagine "as if" you were in an office environment. Otherwise, keep the books for the business as you learned throughout the bookkeeping program.

Scenario: Background

Basswood Furniture is owned and operated by Ian Smith as a sole proprietorship. Ian rents a storefront/gallery at 124 River Lane in Hemlock, PA, 18951. The store is open Monday through Friday from 8 A.M. to 7 P.M. He has been in business for almost two years now. He specializes in creating custom furniture according to client specifications. The furniture is delivered and installed, if necessary, in the client's home or business.

Ian has hired you to be a full-charge bookkeeper effective December 1. The previous bookkeeper left unexpectedly in November due to medical problems. Your wage will be \$15.00/hour. Since the other bookkeeper left, Ian has been trying to get by with paying bills, employees, etc. However, he isn't a trained bookkeeper. He needs someone who can get up to speed quickly doing the books manually (Ian doesn't have accounting software), who understands bookkeeping intimately and is able to correct anything he has done in error, and who can maintain his books accurately in the future.

This is why he has hired you. Although you have no experience—this is your first job—you made a strong impression on Ian with your knowledge of bookkeeping. He was impressed with your graded project for Penn Foster, which you showed him during the interview process to obtain this position. Your immediate supervisor is Jeremy Gates, a CPA with the accounting firm Gates and Associates, Inc. Jeremy spends one or two days at the end of every quarter auditing the books. He is responsible for the accuracy of the books, year-end work, tax preparation, and financial advice. You'll have access to Jeremy for any questions or problems you

may have. This, coupled with your bookkeeping skills, make Ian confident that you'll be able to perform well in the position of full-charge bookkeeper. Your duties will be to maintain the accounting records and produce financial statements at the end of each accounting period.

Basswood Furniture has three employees. Ian is paid a salary. The employees are paid on an hourly basis.

1. Billie Redmond, helper
2. Betty Gable, secretary/coordinator
3. You, the bookkeeper

Ian makes all of the sales and constructs the furniture with the help of Billie Redmond. Everyone is paid on a biweekly basis. Jeremy Gates bills Basswood Furniture for his services as its accountant.

Basswood Furniture operates on a calendar year, which ends December 31. The accounting periods are monthly, and Basswood Furniture uses an accrual basis.

A business can operate on either an accrual basis or a cash basis. When a business first begins, it must be determined which basis it will use. The *cash basis* is used by a small business with few transactions during an accounting period. The accounting period used is usually quarterly, semiannually, or yearly. It records the revenues and expenses when they occur and doesn't attempt to match the expenses with the revenues during an accounting period. The *accrual basis* is what you've been learning throughout your bookkeeping course. The vast majority of businesses use the accrual basis, which uses the Generally Accepted Accounting Principles (GAAP) *matching principle* by getting the expenses into the same accounting period that the revenues occur.

Transactions are recorded in three journals:

1. General journal
2. Cash receipts journal
3. Cash disbursements journal

Any transactions that aren't entered in the cash receipt or cash disbursement journals are entered in the general journal.

Journal entries can be posted to the G/L anytime during the course of a week, at your convenience. However, you've developed the good practice of making sure all entries are posted on a weekly basis. At the end of an accounting period, you must make absolutely sure that *all* journal entries have been posted to the G/L.

At the end of the accounting period, as part of the closing process, you'll work with a 10-column worksheet. Use it to create a Pre-Adjusted Trial Balance, making adjusting journal entries and creating an Adjusted Trial Balance, from which an Income Statement will be created in a format that follows GAAP guidelines. Finally, a Post-Closing Trial Balance will be created, from which you'll generate the company's Balance Sheet.

Scenario: Financial Information

As the first order of business, although he doesn't know how accurate some of the information is, Ian has provided you with the following financial information for the period ending November 20XX:

- Chart of Accounts (Figure 1)
- Trial Balance (Figure 2)
- Customer list (Figure 3)
- Schedule of Accounts Receivable (Figure 4)
- Vendor list (Figure 5)
- Schedule of Accounts Payable (Figure 6)
- Schedules of vehicle depreciation (Figure 7)

- Schedules of equipment depreciation (Figure 8)
- Schedules of office furniture and equipment depreciation (Figure 9)
- Payroll information (Figure 10)
- Merchandise inventory valuation (Figure 11)
- Office supplies inventory valuation (Figure 12)

This information will be used initially to set up the books of accounting for the period December 20XX. The balances in the G/L accounts reflect all transactions recorded through November 30 of the current year. These are the beginning balances for December 1, 20XX. The same details are true of the balances in the Accounts Payable (A/P) and Accounts Receivable (A/R) subsidiary ledgers. Be sure to indicate with a checkmark that you've done the posting in the posting reference columns of the ledgers when you open the books. No supporting documentation or calculations are necessary as the figures presented are assumed to be correct.

Basswood Furniture Chart of Accounts	
Number	Title
100	Cash—Business Checking
107	Petty Cash
110	Accounts Receivable
120	Merchandise Inventory
125	Office Supplies Inventory
140	Prepaid Rent
170	Vehicles
170.1	Accumulated Depreciation—Vehicles
180	Equipment
180.1	Accumulated Depreciation—Equipment
185	Office Furniture and Equipment
185.1	Accumulated Depreciation—Office Furniture and Equipment
200	Accounts Payable
210	Payroll Payable
211	Federal Income Tax Payable
212	Social Security Tax Payable
213	Medicare Tax Payable
214	State Income Tax Payable
215	City Income Tax Payable
221	FUTA Tax Payable
222	SUTA Tax Payable
230	Sales Tax Payable
300	Ian Smith, Capital
300.1	Ian Smith, Drawing
401	Sales Revenue
401.1	Sales Returns and Allowances
401.2	Sales Discounts
500	COGS—Cost of Goods Sold
505	Purchases
505.1	Purchase Returns and Allowances
505.2	Purchase Discounts
510	Payroll Expense
515	Payroll Tax Expense
520	Advertising Expense
525	Rent Expense
530	Office Supplies Expense
535	Telephone Expense
540	Utilities Expense
550	Supplies Expense
560	Miscellaneous Expense
570	Depreciation Expense
580	Cash Short and Over
590	Expense and Revenue Summary

FIGURE 1—Chart of Accounts: Basswood Furniture

**Basswood Furniture:
Trial Balance as of November 30, 20XX**

Acct. No.	Title	Debit	Credit
100	Cash—Business Checking	18,513.18	
107	Petty Cash	500.00	
110	Accounts Receivable	17,986.00	
120	Merchandise Inventory	31,500.00	
125	Office Supplies Inventory	347.23	
140	Prepaid Rent	2,000.00	
170	Vehicles	48,000.00	
170.1	Accumulated Depreciation—Vehicles		16,624.86
180	Equipment	23,500.80	
180.1	Accumulated Depreciation—Equipment		14,361.60
185	Office Furniture and Equipment	6,125.04	
185.1	Accumulated Depreciation—Office Furn. and Equip.		3,743.08
200	Accounts Payable		5,004.00
210	Payroll Payable		0.00
211	Federal Income Tax Payable		722.00
212	Social Security Tax Payable		627.44
213	Medicare Tax Payable		146.74
214	State Income Tax Payable		310.69
215	City Income Tax Payable		101.20
221	FUTA Tax Payable		1,050.56
222	SUTA Tax Payable		7,091.28
230	Sales Tax Payable		3,750.00
300	Ian Smith, Capital		94,938.80
300.1	Ian Smith, Drawing	0.00	
401	Sales		0.00
401.1	Sales Returns and Allowances	0.00	
401.2	Sales Discounts	0.00	
500	COGS—Cost of Goods Sold	0.00	
505	Purchases	0.00	
505.1	Purchase Returns and Allowances		0.00
505.2	Purchase Discounts		0.00
510	Payroll Expense	0.00	
515	Payroll Tax Expense	0.00	
520	Advertising Expense	0.00	
525	Rent Expense	0.00	
530	Office Supplies Expense	0.00	
535	Telephone Expense	0.00	
540	Utilities Expense	0.00	
550	Supplies Expense	0.00	
560	Miscellaneous Expense	0.00	
570	Depreciation Expense	0.00	
580	Cash Short and Over	0.00	
590	Expense and Revenue Summary	0.00	
TOTALS		<u>148,472.25</u>	<u>148,472.25</u>

FIGURE 2—Trial Balance: Basswood Furniture

Basswood Furniture: Customer List—Accounts Receivable	
Account Number	Customer
AR-010	Elizabeth Dante, 264 Landon Lane, Antigua, PA 15935
AR-020	Liya Designs, 13 Spruce Street, Archwood, PA 17514
AR-030	Yu Wei Creations, 91 Nittany Drive, Lansdale, PA 13956
AR-040	Capital Hardware, 87 Ridge Road, Anton, PA 12893
AR-050	The Antique Shoppe, 659 Market St, Sommerville, PA 15302
AR-060	Michael's Furniture, 284 Carter Lane, Hanson, PA 14761
AR-070	Kenny Refinishing, 73 Tomey Avenue, Brighton, PA 16688
AR-080	Sam Little, 7 Ebony Drive, Adams, PA 14475
AR-090	Jim and Pearl Jones, 92 Weston Ave., Carverton, PA 18346
AR-100	Andy Mellow, 467 Reinhold Lane, Mountain Bend, PA 11321
AR-110	Quality Furniture, 101 Chester Drive, Birchwood, PA 19834
AR-120	Donna Bigelow, 901 Washington Lane, Appleton, PA 16572

FIGURE 3—Customer List: Basswood Furniture

Basswood Furniture: Schedule of Accounts Receivable November 30, 20XX		
Account Number	Customer	\$ Amount
AR-010	Elizabeth Dante	1,234.00
AR-020	Liya Designs	7,580.00
AR-030	Yu Wei Creations	6,437.00
AR-040	Capital Hardware	0.00
AR-050	The Antique Shoppe	350.00
AR-060	Michael's Furniture	0.00
AR-070	Kenny Refinishing	925.00
AR-080	Sam Little	425.00
AR-090	Jim and Pearl Jones	125.00
AR-100	Andy Mellow	50.00
AR-110	Quality Furniture	0.00
AR-120	Donna Bigelow	860.00
Total		<u>\$ 17,986.00</u>

FIGURE 4—Schedule of Accounts Receivable: Basswood Furniture

Basswood Furniture: Vendor List—Accounts Payable	
Account Number	Vendor
AP-010	Hemlock Gas and Electric Co., Hemlock, PA 18953-6174
AP-020	The Home Improvement Center, 91 Arch St, Benton, OH 65714
AP-030	Carol's Wood Supplies, 6 Lane Way, Canton, NJ 35741
AP-040	Atlantic Telephone Co., Hemlock, PA 18952-6143
AP-050	Woodworker Supplies, 4 Tennison Drive, Benning, NC 43852
AP-060	Everything Wood, 608 Rider Avenue, Capta, CA 93412
AP-070	Sally's Fabrics, 593 Eleanor Road, TN 34687
AP-080	Two Guys Hardware, 29 Huntington Dr, Allenwood TN 26579
AP-090	Penn Furnishings, 84 Oakwood Avenue, Allenwood, TN 26579
AP-100	Cheryl Wood Designs, 802 Corning St, Palmerton, PA 11682
AP-110	Tom Baker, 53 Union Street, Hemlock, PA 18951
AP-120	Wood Imaginations, P.O. Box 461, Elkington, MN 43167
AP-130	Gates and Associates, Inc., 149 Elk Dr, Hemlock, PA 18953

FIGURE 5—Vendor List: Basswood Furniture

Basswood Furniture: Schedule of Accounts Payable November 30, 20XX		
Account Number	Vendor	\$ Amount
AP-010	Hemlock Gas and Electric Co.	\$ 0.00
AP-020	The Home Improvement Center	353.00
AP-030	Carol's Wood Supplies	631.00
AP-040	Atlantic Telephone Co.	0.00
AP-050	Woodworker Supplies	1,621.00
AP-060	Everything Wood	750.00
AP-070	Sally's Fabrics	0.00
AP-080	Two Guys Hardware	75.00
AP-090	Penn Furnishings	0.00
AP-100	Cheryl Wood Designs	480.00
AP-110	Tom Baker	130.00
AP-120	Wood Imaginations	964.00
AP-130	Gates and Associates, Inc.,	0.00
Total		<u>\$ 5,004.00</u>

FIGURE 6—Schedule of Accounts Payable: Basswood Furniture

Schedules of Vehicle Depreciation

Make: Ford

Model: Econoline Van

Year: 20XX

Purchase Date: 02/01/20XX

Purchase Price: \$48,000

Method of Depr.: Straight-Line

of Years: 4

Salvage Value: \$10,000

Depr. Per Period: \$791.66

Period	Year 1 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
				48,000.00	
1	2/28	791.66	791.66	47,208.34	YES
2	3/31	791.66	1583.32	46,416.68	YES
3	4/30	791.66	2374.98	45,625.02	YES
4	5/31	791.66	3166.64	44,833.36	YES
5	6/30	791.66	3958.3	44,041.70	YES
6	7/31	791.66	4749.96	43,250.04	YES
7	8/31	791.66	5541.62	42,458.38	YES
8	9/30	791.66	6333.28	41,666.72	YES
9	10/31	791.66	7124.94	40,875.06	YES
10	11/30	791.66	7916.6	40,083.40	YES
11	12/31	791.66	8708.26	39,291.74	YES
12	1/31	791.66	9499.92	38,500.08	YES

Period	Year 2 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
			9499.92	38,500.08	
13	2/28	791.66	10291.58	37,708.42	YES
14	3/31	791.66	11083.24	36,916.76	YES
15	4/30	791.66	11874.9	36,125.10	YES
16	5/31	791.66	12666.56	35,333.44	YES
17	6/30	791.66	13458.22	34,541.78	YES
18	7/31	791.66	14249.88	33,750.12	YES
19	8/31	791.66	15041.54	32,958.46	YES
20	9/30	791.66	15833.2	32,166.80	YES
21	10/31	791.66	16624.86	31,375.14	YES
22	11/30	791.66	17416.52	30,583.48	
23	12/31	791.66	18208.18	29,791.82	
24	1/31	791.66	18999.84	29,000.16	

Period	Year 3 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
			18999.84	29,000.16	
25	2/28	791.66	19791.5	28,208.50	
26	3/31	791.66	20583.16	27,416.84	
27	4/30	791.66	21374.82	26,625.18	
28	5/31	791.66	22166.48	25,833.52	
29	6/30	791.66	22958.14	25,041.86	
30	7/31	791.66	23749.8	24,250.20	
31	8/31	791.66	24541.46	23,458.54	
32	9/30	791.66	25333.12	22,666.88	
33	10/31	791.66	26124.78	21,875.22	
34	11/30	791.66	26916.44	21,083.56	
35	12/31	791.66	27708.1	20,291.90	
36	1/31	791.66	28499.76	19,500.24	

Period	Year 4 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
			28499.76	19,500.24	
37	2/28	791.66	29291.42	18,708.58	
38	3/31	791.66	30083.08	17,916.92	
39	4/30	791.66	30874.74	17,125.26	
40	5/31	791.66	31666.4	16,333.60	
41	6/30	791.66	32458.06	15,541.94	
42	7/31	791.66	33249.72	14,750.28	
43	8/31	791.66	34041.38	13,958.62	
44	9/30	791.66	34833.04	13,166.96	
45	10/31	791.66	35624.7	12,375.30	
46	11/30	791.66	36416.36	11,583.64	
47	12/31	791.66	37208.02	10,791.98	
48	1/31	791.98	38000.00	10,000.00	

FIGURE 7—Schedules of Vehicle Depreciation: Basswood Furniture

Schedules of Equipment Depreciation

Items: (Initial Investment)

Table saw	Compound miter saw
Band saw	Scroll saw
Router table	Drill press
Lathe	Planer
Dust collection system	Work benches
Invoice itemized misc equipment	

Purchase Date: 01/01/20XX

Purchase Price: \$23,500.80

Method of Depr.: Straight-Line

of Years: 3

Salvage Value: \$0.00

Depr. Per Period: \$652.80

Period	Year 1 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
				23,500.80	
1	01/31	652.80	652.80	22,848.00	YES
2	02/28	652.80	1,305.60	22,195.20	YES
3	03/31	652.80	1,958.40	21,542.40	YES
4	04/30	652.80	2,611.20	20,889.60	YES
5	05/31	652.80	3,264.00	20,236.80	YES
6	06/30	652.80	3,916.80	19,584.00	YES
7	07/31	652.80	4,569.60	18,931.20	YES
8	08/31	652.80	5,222.40	18,278.40	YES
9	09/30	652.80	5,875.20	17,625.60	YES
10	10/31	652.80	6,528.00	16,972.80	YES
11	11/30	652.80	7,180.80	16,320.00	YES
12	12/31	652.80	7,833.60	15,667.20	YES

Period	Year 2 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
			7,833.60	15,667.20	
1	01/31	652.80	8,486.40	15,014.40	YES
2	02/28	652.80	9,139.20	14,361.60	YES
3	03/31	652.80	9,792.00	13,708.80	YES
4	04/30	652.80	10,444.80	13,056.00	YES
5	05/31	652.80	11,097.60	12,403.20	YES
6	06/30	652.80	11,750.40	11,750.40	YES
7	07/31	652.80	12,403.20	11,097.60	YES
8	08/31	652.80	13,056.00	10,444.80	YES
9	09/30	652.80	13,708.80	9,792.00	YES
10	10/31	652.80	14,361.60	9,139.20	YES
11	11/30	652.80	15,014.40	8,486.40	
12	12/31	652.80	15,667.20	7,833.60	

Period	Year 3 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
			15,667.20	7,833.60	
1	01/31	652.80	16,320.00	7,180.80	
2	02/28	652.80	16,972.80	6,528.00	
3	03/31	652.80	17,625.60	5,875.20	
4	04/30	652.80	18,278.40	5,222.40	
5	05/31	652.80	18,931.20	4,569.60	
6	06/30	652.80	19,584.00	3,916.80	
7	07/31	652.80	20,236.80	3,264.00	
8	08/31	652.80	20,889.60	2,611.20	
9	09/30	652.80	21,542.40	1,958.40	
10	10/31	652.80	22,195.20	1,305.60	
11	11/30	652.80	22,848.00	652.80	
12	12/31	652.80	23,500.80	0.00	

FIGURE 8—Schedules of Equipment Depreciation: Basswood Furniture

Schedules of Office Furniture and Equipment Depreciation

Items: (Initial Investment)

(2) Computers	Printer
Invoice itemized computer software	(2) Desks
(2) Filing cabinets	(2) Chairs
Telephone/answering/fax machine	Copier
Invoice itemized misc items	Telephone

Purchase Date: 01/01/20XX

Purchase Price: \$6,125.04

Method of Depr.: Straight-Line

of Years: 3

Salvage Value: \$0.00

Depr. Per Period: \$170.14

Period	Year 1 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
				6,125.04	
1	01/31	170.14	170.14	5,954.90	YES
2	02/28	170.14	340.28	5,784.76	YES
3	03/31	170.14	510.42	5,614.62	YES
4	04/30	170.14	680.56	5,444.48	YES
5	05/31	170.14	850.70	5,274.34	YES
6	06/30	170.14	1,020.84	5,104.20	YES
7	07/31	170.14	1,190.98	4,934.06	YES
8	08/31	170.14	1,361.12	4,763.92	YES
9	09/30	170.14	1,531.26	4,593.78	YES
10	10/31	170.14	1,701.40	4,423.64	YES
11	11/30	170.14	1,871.54	4,253.50	YES
12	12/31	170.14	2,041.68	4,083.36	YES

Period	Year 2 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
			2,041.68	4,083.36	
1	01/31	170.14	2,211.82	3,913.22	YES
2	02/28	170.14	2,381.96	3,743.08	YES
3	03/31	170.14	2,552.10	3,572.94	YES
4	04/30	170.14	2,722.24	3,402.80	YES
5	05/31	170.14	2,892.38	3,232.66	YES
6	06/30	170.14	3,062.52	3,062.52	YES
7	07/31	170.14	3,232.66	2,892.38	YES
8	08/31	170.14	3,402.80	2,722.24	YES
9	09/30	170.14	3,572.94	2,552.10	YES
10	10/31	170.14	3,743.08	2,381.96	YES
11	11/30	170.14	3,913.22	2,211.82	
12	12/31	170.14	4,083.36	2,041.68	

Period	Year 3 P/E Date	Depreciation Amount	Accumulated Depreciation	Book Value	Posted
			4,083.36	2,041.68	
1	01/31	170.14	4,253.50	1,871.54	
2	02/28	170.14	4,423.64	1,701.40	
3	03/31	170.14	4,593.78	1,531.26	
4	04/30	170.14	4,763.92	1,361.12	
5	05/31	170.14	4,934.06	1,190.98	
6	06/30	170.14	5,104.20	1,020.84	
7	07/31	170.14	5,274.34	850.70	
8	08/31	170.14	5,444.48	680.56	
9	09/30	170.14	5,614.62	510.42	
10	10/31	170.14	5,784.76	340.28	
11	11/30	170.14	5,954.90	170.14	
12	12/31	170.14	6,125.04	0.00	

FIGURE 9—Schedules of Office Furniture and Equipment Depreciation: Basswood Furniture

PAYROLL INFORMATION
As of November 30, 20XX

Employee:

Ian Smith
234 Pinewood Rd.
Hemlock, PA 18951

Status: Married

Number of Allowances Claiming: 4

Additional Amount Withheld: \$ 0.00

Wage/Salary: \$2,500.00 (Salary)

YTD Earnings: \$60,000.00

Employee:

Betty Gable
465 Pinewood Rd.
Hemlock, PA 18951

Status: Single

Number of Allowances Claiming: 0

Additional Amount Withheld: \$ 0.00

Wage/Salary: \$12.50/hr

YTD Earnings: \$16,500.00

Employee:

Billie Redmond
67 Oak St.
Hemlock, PA 18951

Status: Married

Number of Allowances Claiming: 3

Additional Amount Withheld: \$ 0.00

Wage/Salary: \$17.00/hr

YTD Earnings: \$29,920.00

(Continued)

Employee:

Janet Adams
83 Empire St.
Hemlock, PA 18951

Status: Married

Number of Allowances Claiming: 2

Additional Amount Withheld: \$ 0.00

Wage/Salary: \$15.00/hr

YTD Earnings: \$24,900.00

Additional Payroll Information:

Hourly employees are paid time-and-one-half for overtime hours. Any hours worked over 40 hours for the week qualify for overtime pay.

Hourly employees are paid double time for any hours worked over 60 hours for the week and for working on holidays.

Currently, employees are responsible for their own insurance.

(Continued)

Use the following tax tables for Federal Withholding Tax from the current year Circular E:

FWT:

SINGLE Persons—BIWEEKLY Payroll Period												
(For Wages Paid through December 20XX)												
And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
The amount of income tax to be withheld is—												
\$ 0	\$105	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
105	110	3	0	0	0	0	0	0	0	0	0	0
110	115	3	0	0	0	0	0	0	0	0	0	0
115	120	4	0	0	0	0	0	0	0	0	0	0
120	125	4	0	0	0	0	0	0	0	0	0	0
125	130	5	0	0	0	0	0	0	0	0	0	0
130	135	5	0	0	0	0	0	0	0	0	0	0
135	140	6	0	0	0	0	0	0	0	0	0	0
140	145	6	0	0	0	0	0	0	0	0	0	0
145	150	7	0	0	0	0	0	0	0	0	0	0
150	155	7	0	0	0	0	0	0	0	0	0	0
155	160	8	0	0	0	0	0	0	0	0	0	0
160	165	8	0	0	0	0	0	0	0	0	0	0
165	170	9	0	0	0	0	0	0	0	0	0	0
170	175	9	0	0	0	0	0	0	0	0	0	0
175	180	10	0	0	0	0	0	0	0	0	0	0
180	185	10	0	0	0	0	0	0	0	0	0	0
185	190	11	0	0	0	0	0	0	0	0	0	0
190	195	11	0	0	0	0	0	0	0	0	0	0
195	200	12	0	0	0	0	0	0	0	0	0	0
200	205	12	0	0	0	0	0	0	0	0	0	0
205	210	13	0	0	0	0	0	0	0	0	0	0
210	215	13	0	0	0	0	0	0	0	0	0	0
215	220	14	0	0	0	0	0	0	0	0	0	0
220	225	14	0	0	0	0	0	0	0	0	0	0
225	230	15	0	0	0	0	0	0	0	0	0	0
230	235	15	1	0	0	0	0	0	0	0	0	0
235	240	16	1	0	0	0	0	0	0	0	0	0
240	245	16	2	0	0	0	0	0	0	0	0	0
245	250	17	2	0	0	0	0	0	0	0	0	0
250	260	17	3	0	0	0	0	0	0	0	0	0
260	270	18	4	0	0	0	0	0	0	0	0	0
270	280	19	5	0	0	0	0	0	0	0	0	0
280	290	20	6	0	0	0	0	0	0	0	0	0
290	300	21	7	0	0	0	0	0	0	0	0	0
300	310	22	8	0	0	0	0	0	0	0	0	0
310	320	23	9	0	0	0	0	0	0	0	0	0
320	330	24	10	0	0	0	0	0	0	0	0	0
330	340	25	11	0	0	0	0	0	0	0	0	0
340	350	26	12	0	0	0	0	0	0	0	0	0
350	360	27	13	0	0	0	0	0	0	0	0	0
360	370	28	14	0	0	0	0	0	0	0	0	0
370	380	29	15	1	0	0	0	0	0	0	0	0
380	390	30	16	2	0	0	0	0	0	0	0	0
390	400	31	17	3	0	0	0	0	0	0	0	0
400	410	32	18	4	0	0	0	0	0	0	0	0
410	420	34	19	5	0	0	0	0	0	0	0	0
420	430	35	20	6	0	0	0	0	0	0	0	0
430	440	37	21	7	0	0	0	0	0	0	0	0
440	450	38	22	8	0	0	0	0	0	0	0	0
450	460	40	23	9	0	0	0	0	0	0	0	0
460	470	41	24	10	0	0	0	0	0	0	0	0
470	480	43	25	11	0	0	0	0	0	0	0	0
480	490	44	26	12	0	0	0	0	0	0	0	0
490	500	46	27	13	0	0	0	0	0	0	0	0
500	520	48	29	14	0	0	0	0	0	0	0	0
520	540	51	31	16	2	0	0	0	0	0	0	0
540	560	54	33	18	4	0	0	0	0	0	0	0
560	580	57	36	20	6	0	0	0	0	0	0	0
580	600	60	39	22	8	0	0	0	0	0	0	0
600	620	63	42	24	10	0	0	0	0	0	0	0
620	640	66	45	26	12	0	0	0	0	0	0	0
640	660	69	48	28	14	0	0	0	0	0	0	0
660	680	72	51	30	16	2	0	0	0	0	0	0
680	700	75	54	32	18	4	0	0	0	0	0	0
700	720	78	57	35	20	6	0	0	0	0	0	0
720	740	81	60	38	22	8	0	0	0	0	0	0
740	760	84	63	41	24	10	0	0	0	0	0	0
760	780	87	66	44	26	12	0	0	0	0	0	0
780	800	90	69	47	28	14	0	0	0	0	0	0

SINGLE Persons—BIWEEKLY Payroll Period

(For Wages Paid through December 20XX)

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
		The amount of income tax to be withheld is—										
\$800	\$820	\$93	\$72	\$50	\$30	\$16	\$2	\$0	\$0	\$0	\$0	\$0
820	840	96	75	53	32	18	4	0	0	0	0	0
840	860	99	78	56	35	20	6	0	0	0	0	0
860	880	102	81	59	38	22	8	0	0	0	0	0
880	900	105	84	62	41	24	10	0	0	0	0	0
900	920	108	87	65	44	26	12	0	0	0	0	0
920	940	111	90	68	47	28	14	0	0	0	0	0
940	960	114	93	71	50	30	16	2	0	0	0	0
960	980	117	96	74	53	32	18	4	0	0	0	0
980	1,000	120	99	77	56	35	20	6	0	0	0	0
1,000	1,020	123	102	80	59	38	22	8	0	0	0	0
1,020	1,040	126	105	83	62	41	24	10	0	0	0	0
1,040	1,060	129	108	86	65	44	26	12	0	0	0	0
1,060	1,080	132	111	89	68	47	28	14	0	0	0	0
1,080	1,100	135	114	92	71	50	30	16	1	0	0	0
1,100	1,120	138	117	95	74	53	32	18	3	0	0	0
1,120	1,140	141	120	98	77	56	34	20	5	0	0	0
1,140	1,160	144	123	101	80	59	37	22	7	0	0	0
1,160	1,180	147	126	104	83	62	40	24	9	0	0	0
1,180	1,200	150	129	107	86	65	43	26	11	0	0	0
1,200	1,220	153	132	110	89	68	46	28	13	0	0	0
1,220	1,240	156	135	113	92	71	49	30	15	1	0	0
1,240	1,260	159	138	116	95	74	52	32	17	3	0	0
1,260	1,280	162	141	119	98	77	55	34	19	5	0	0
1,280	1,300	165	144	122	101	80	58	37	21	7	0	0
1,300	1,320	168	147	125	104	83	61	40	23	9	0	0
1,320	1,340	171	150	128	107	86	64	43	25	11	0	0
1,340	1,360	174	153	131	110	89	67	46	27	13	0	0
1,360	1,380	177	156	134	113	92	70	49	29	15	1	0
1,380	1,400	180	159	137	116	95	73	52	31	17	3	0
1,400	1,420	183	162	140	119	98	76	55	34	19	5	0
1,420	1,440	188	165	143	122	101	79	58	37	21	7	0
1,440	1,460	193	168	146	125	104	82	61	40	23	9	0
1,460	1,480	198	171	149	128	107	85	64	43	25	11	0
1,480	1,500	203	174	152	131	110	88	67	46	27	13	0
1,500	1,520	208	177	155	134	113	91	70	49	29	15	1
1,520	1,540	213	180	158	137	116	94	73	52	31	17	3
1,540	1,560	218	183	161	140	119	97	76	55	33	19	5
1,560	1,580	223	188	164	143	122	100	79	58	36	21	7
1,580	1,600	228	193	167	146	125	103	82	61	39	23	9
1,600	1,620	233	198	170	149	128	106	85	64	42	25	11
1,620	1,640	238	203	173	152	131	109	88	67	45	27	13
1,640	1,660	243	208	176	155	134	112	91	70	48	29	15
1,660	1,680	248	213	179	158	137	115	94	73	51	31	17
1,680	1,700	253	218	182	161	140	118	97	76	54	33	19
1,700	1,720	258	223	187	164	143	121	100	79	57	36	21
1,720	1,740	263	228	192	167	146	124	103	82	60	39	23
1,740	1,760	268	233	197	170	149	127	106	85	63	42	25
1,760	1,780	273	238	202	173	152	130	109	88	66	45	27
1,780	1,800	278	243	207	176	155	133	112	91	69	48	29
1,800	1,820	283	248	212	179	158	136	115	94	72	51	31
1,820	1,840	288	253	217	182	161	139	118	97	75	54	33
1,840	1,860	293	258	222	187	164	142	121	100	78	57	36
1,860	1,880	298	263	227	192	167	145	124	103	81	60	39
1,880	1,900	303	268	232	197	170	148	127	106	84	63	42
1,900	1,920	308	273	237	202	173	151	130	109	87	66	45
1,920	1,940	313	278	242	207	176	154	133	112	90	69	48
1,940	1,960	318	283	247	212	179	157	136	115	93	72	51
1,960	1,980	323	288	252	217	182	160	139	118	96	75	54
1,980	2,000	328	293	257	222	186	163	142	121	99	78	57
2,000	2,020	333	298	262	227	191	166	145	124	102	81	60
2,020	2,040	338	303	267	232	196	169	148	127	105	84	63
2,040	2,060	343	308	272	237	201	172	151	130	108	87	66
2,060	2,080	348	313	277	242	206	175	154	133	111	90	69
2,080	2,100	353	318	282	247	211	178	157	136	114	93	72

\$2,100 and over

Use Table 2(a) for a SINGLE person on page 36. Also see the instructions on page 35.

MARRIED Persons—BIWEEKLY Payroll Period

(For Wages Paid through December 20XX)

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
		The amount of income tax to be withheld is—										
\$ 0	\$310	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
310	320	1	0	0	0	0	0	0	0	0	0	0
320	330	2	0	0	0	0	0	0	0	0	0	0
330	340	3	0	0	0	0	0	0	0	0	0	0
340	350	4	0	0	0	0	0	0	0	0	0	0
350	360	5	0	0	0	0	0	0	0	0	0	0
360	370	6	0	0	0	0	0	0	0	0	0	0
370	380	7	0	0	0	0	0	0	0	0	0	0
380	390	8	0	0	0	0	0	0	0	0	0	0
390	400	9	0	0	0	0	0	0	0	0	0	0
400	410	10	0	0	0	0	0	0	0	0	0	0
410	420	11	0	0	0	0	0	0	0	0	0	0
420	430	12	0	0	0	0	0	0	0	0	0	0
430	440	13	0	0	0	0	0	0	0	0	0	0
440	450	14	0	0	0	0	0	0	0	0	0	0
450	460	15	1	0	0	0	0	0	0	0	0	0
460	470	16	2	0	0	0	0	0	0	0	0	0
470	480	17	3	0	0	0	0	0	0	0	0	0
480	490	18	4	0	0	0	0	0	0	0	0	0
490	500	19	5	0	0	0	0	0	0	0	0	0
500	520	21	6	0	0	0	0	0	0	0	0	0
520	540	23	8	0	0	0	0	0	0	0	0	0
540	560	25	10	0	0	0	0	0	0	0	0	0
560	580	27	12	0	0	0	0	0	0	0	0	0
580	600	29	14	0	0	0	0	0	0	0	0	0
600	620	31	16	2	0	0	0	0	0	0	0	0
620	640	33	18	4	0	0	0	0	0	0	0	0
640	660	35	20	6	0	0	0	0	0	0	0	0
660	680	37	22	8	0	0	0	0	0	0	0	0
680	700	39	24	10	0	0	0	0	0	0	0	0
700	720	41	26	12	0	0	0	0	0	0	0	0
720	740	43	28	14	0	0	0	0	0	0	0	0
740	760	45	30	16	2	0	0	0	0	0	0	0
760	780	47	32	18	4	0	0	0	0	0	0	0
780	800	49	34	20	6	0	0	0	0	0	0	0
800	820	51	36	22	8	0	0	0	0	0	0	0
820	840	53	38	24	10	0	0	0	0	0	0	0
840	860	55	40	26	12	0	0	0	0	0	0	0
860	880	57	42	28	14	0	0	0	0	0	0	0
880	900	59	44	30	16	2	0	0	0	0	0	0
900	920	61	46	32	18	4	0	0	0	0	0	0
920	940	63	48	34	20	6	0	0	0	0	0	0
940	960	65	50	36	22	8	0	0	0	0	0	0
960	980	67	52	38	24	10	0	0	0	0	0	0
980	1,000	70	54	40	26	12	0	0	0	0	0	0
1,000	1,020	73	56	42	28	14	0	0	0	0	0	0
1,020	1,040	76	58	44	30	16	1	0	0	0	0	0
1,040	1,060	79	60	46	32	18	3	0	0	0	0	0
1,060	1,080	82	62	48	34	20	5	0	0	0	0	0
1,080	1,100	85	64	50	36	22	7	0	0	0	0	0
1,100	1,120	88	67	52	38	24	9	0	0	0	0	0
1,120	1,140	91	70	54	40	26	11	0	0	0	0	0
1,140	1,160	94	73	56	42	28	13	0	0	0	0	0
1,160	1,180	97	76	58	44	30	15	1	0	0	0	0
1,180	1,200	100	79	60	46	32	17	3	0	0	0	0
1,200	1,220	103	82	62	48	34	19	5	0	0	0	0
1,220	1,240	106	85	64	50	36	21	7	0	0	0	0
1,240	1,260	109	88	67	52	38	23	9	0	0	0	0
1,260	1,280	112	91	70	54	40	25	11	0	0	0	0
1,280	1,300	115	94	73	56	42	27	13	0	0	0	0
1,300	1,320	118	97	76	58	44	29	15	1	0	0	0
1,320	1,340	121	100	79	60	46	31	17	3	0	0	0
1,340	1,360	124	103	82	62	48	33	19	5	0	0	0
1,360	1,380	127	106	85	64	50	35	21	7	0	0	0
1,380	1,400	130	109	88	66	52	37	23	9	0	0	0
1,400	1,420	133	112	91	69	54	39	25	11	0	0	0
1,420	1,440	136	115	94	72	56	41	27	13	0	0	0
1,440	1,460	139	118	97	75	58	43	29	15	1	0	0
1,460	1,480	142	121	100	78	60	45	31	17	3	0	0
1,480	1,500	145	124	103	81	62	47	33	19	5	0	0

MARRIED Persons—BIWEEKLY Payroll Period
(For Wages Paid through December 20XX)

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
		The amount of income tax to be withheld is—										
\$1,500	\$1,520	\$148	\$127	\$106	\$84	\$64	\$49	\$35	\$21	\$7	\$0	\$0
1,520	1,540	151	130	109	87	66	51	37	23	9	0	0
1,540	1,560	154	133	112	90	69	53	39	25	11	0	0
1,560	1,580	157	136	115	93	72	55	41	27	13	0	0
1,580	1,600	160	139	118	96	75	57	43	29	15	1	0
1,600	1,620	163	142	121	99	78	59	45	31	17	3	0
1,620	1,640	166	145	124	102	81	61	47	33	19	5	0
1,640	1,660	169	148	127	105	84	63	49	35	21	7	0
1,660	1,680	172	151	130	108	87	66	51	37	23	9	0
1,680	1,700	175	154	133	111	90	69	53	39	25	11	0
1,700	1,720	178	157	136	114	93	72	55	41	27	13	0
1,720	1,740	181	160	139	117	96	75	57	43	29	15	0
1,740	1,760	184	163	142	120	99	78	59	45	31	17	2
1,760	1,780	187	166	145	123	102	81	61	47	33	19	4
1,780	1,800	190	169	148	126	105	84	63	49	35	21	6
1,800	1,820	193	172	151	129	108	87	65	51	37	23	8
1,820	1,840	196	175	154	132	111	90	68	53	39	25	10
1,840	1,860	199	178	157	135	114	93	71	55	41	27	12
1,860	1,880	202	181	160	138	117	96	74	57	43	29	14
1,880	1,900	205	184	163	141	120	99	77	59	45	31	16
1,900	1,920	208	187	166	144	123	102	80	61	47	33	18
1,920	1,940	211	190	169	147	126	105	83	63	49	35	20
1,940	1,960	214	193	172	150	129	108	86	65	51	37	22
1,960	1,980	217	196	175	153	132	111	89	68	53	39	24
1,980	2,000	220	199	178	156	135	114	92	71	55	41	26
2,000	2,020	223	202	181	159	138	117	95	74	57	43	28
2,020	2,040	226	205	184	162	141	120	98	77	59	45	30
2,040	2,060	229	208	187	165	144	123	101	80	61	47	32
2,060	2,080	232	211	190	168	147	126	104	83	63	49	34
2,080	2,100	235	214	193	171	150	129	107	86	65	51	36
2,100	2,120	238	217	196	174	153	132	110	89	67	53	38
2,120	2,140	241	220	199	177	156	135	113	92	70	55	40
2,140	2,160	244	223	202	180	159	138	116	95	73	57	42
2,160	2,180	247	226	205	183	162	141	119	98	76	59	44
2,180	2,200	250	229	208	186	165	144	122	101	79	61	46
2,200	2,220	253	232	211	189	168	147	125	104	82	63	48
2,220	2,240	256	235	214	192	171	150	128	107	85	65	50
2,240	2,260	259	238	217	195	174	153	131	110	88	67	52
2,260	2,280	262	241	220	198	177	156	134	113	91	70	54
2,280	2,300	265	244	223	201	180	159	137	116	94	73	56
2,300	2,320	268	247	226	204	183	162	140	119	97	76	58
2,320	2,340	271	250	229	207	186	165	143	122	100	79	60
2,340	2,360	274	253	232	210	189	168	146	125	103	82	62
2,360	2,380	277	256	235	213	192	171	149	128	106	85	64
2,380	2,400	280	259	238	216	195	174	152	131	109	88	67
2,400	2,420	283	262	241	219	198	177	155	134	112	91	70
2,420	2,440	286	265	244	222	201	180	158	137	115	94	73
2,440	2,460	289	268	247	225	204	183	161	140	118	97	76
2,460	2,480	292	271	250	228	207	186	164	143	121	100	79
2,480	2,500	295	274	253	231	210	189	167	146	124	103	82
2,500	2,520	298	277	256	234	213	192	170	149	127	106	85
2,520	2,540	301	280	259	237	216	195	173	152	130	109	88
2,540	2,560	304	283	262	240	219	198	176	155	133	112	91
2,560	2,580	307	286	265	243	222	201	179	158	136	115	94
2,580	2,600	310	289	268	246	225	204	182	161	139	118	97
2,600	2,620	313	292	271	249	228	207	185	164	142	121	100
2,620	2,640	316	295	274	252	231	210	188	167	145	124	103
2,640	2,660	319	298	277	255	234	213	191	170	148	127	106
2,660	2,680	322	301	280	258	237	216	194	173	151	130	109
2,680	2,700	325	304	283	261	240	219	197	176	154	133	112

\$2,700 and over

Use Table 2(b) for a **MARRIED** person on page 36. Also see the instructions on page 35.

SWT:

Pennsylvania Income State Tax Percentage: 3.07%

LWT:

Hemlock Local Withholding Tax Percentage: 1.00%

FICA:

Social Security Tax Percentage:

Employee: 6.02% on all earnings

Employer: 6.02% on all earnings

Medicare Tax Percentage:

Employee: 1.45% up to \$106,800 in earnings

Employer: 1.45% up to \$106,800 in earnings

FUTA:

The FUTA tax percentage is 0.8% of the first \$7,000 of wages per year

SUTA:

The SUTA tax percentage is 5.4% of the first \$7,000 of wages per year

FIGURE 10—Payroll Information: Basswood Furniture

Merchandise Inventory Valuation As of November 31, 20XX				
Item No.	Description	No. of Items	Amount	Total Amount
DR-0003	Dining Room Set	2	\$ 2,500.00	\$ 5,000.00
DRS-0005	Dining Room Set	2	\$ 2,125.00	\$ 4,250.00
DRS-0009	Dining Room Set	2	\$ 3,455.00	\$ 6,910.00
TBL-0023	Table	4	\$ 65.00	\$ 260.00
TBL-0037	Table	3	\$ 85.00	\$ 255.00
CHR-0002	Chairs-4 set	3	\$ 90.00	\$ 270.00
CHR-0005	Chairs - 6 set	6	\$ 120.00	\$ 720.00
ETB-0003	End Table	3	\$ 45.00	\$ 135.00
ETB-0006	End Table	4	\$ 55.00	\$ 220.00
MGR-0004	Magazine Rack	5	\$ 15.00	\$ 75.00
WNR-0001	Wine Rack	2	\$ 125.00	\$ 250.00
LMP-0003	Lamp	5	\$ 65.00	\$ 325.00
CTB-0007	Coffee Table	6	\$ 90.00	\$ 540.00
RCH-0001	Rocking Chair	4	\$ 85.00	\$ 340.00
DRS-0002	Dresser - 8 Drawer	3	\$ 235.00	\$ 705.00
DRS-0001	Dresser - 10 Drawer	1	\$ 275.00	\$ 275.00
DRS-0004	Dresser - 12 Drawer	1	\$ 295.00	\$ 295.00
BRM-0002	Bedroom Set	2	\$ 3,250.00	\$ 6,500.00
BRM-0003	Bedroom Set	1	\$ 3,675.00	\$ 3,675.00
HTC-0004	Hutch	4	\$ 125.00	\$ 500.00
Total inventory value				<u>\$ 31,500.00</u>

FIGURE 11—Merchandise Inventory Valuation: Basswood Furniture

Office Supplies Inventory Valuation November 31, 20xx			
Description	No. of Items	Amount	Total Amount
Legal Pads – 12 PK	4	\$ 8.95	\$ 35.80
Copy Paper – Case	4	\$ 35.99	\$ 143.96
Roller Pens – Dz	4	\$ 12.49	\$ 49.96
Wood Pencils – Dz	20	\$ 1.69	\$ 33.80
Permanent Marker – Dz	2	\$ 6.99	\$ 13.98
Correction Fluid – Dz	1	\$ 1.30	\$ 1.30
Highlighter – DZ	2	\$ 7.99	\$ 15.98
Plain Envelopes – Box	2	\$ 6.99	\$ 13.98
Clasp Envelopes – Box	1	\$ 13.99	\$ 13.99
Receipt Book	2	\$ 12.24	\$ 24.48
Total Inventory Value			<u>\$ 347.23</u>

FIGURE 12—Office Supplies Inventory Valuation: Basswood Furniture

Additional General Information

Cash—the Business Checking account is used for all transactions (including payroll). Everything is paid for by check with the exception of petty cash. (*Petty cash* is an amount of cash that has been set aside for small purchases that you wouldn't write a check for, i.e., the purchase of a 50 cent newspaper.)

Petty Cash remains at an imprest amount of \$500.00. (*Imprest* means the balance, once set, remains the same. The amount of the cash plus the total of the receipts should always equal the imprest amount.)

Accounts Receivable terms are decided on an account-by-account basis, with the default being 2/10, n30. Each week, the Schedule of Accounts Receivable is reviewed for collection purposes. Ian has a good rapport with his clients, having developed a good name for himself. Credit applications are taken, checked, and approved by Ian before setting up an account.

Merchandise Inventory is the cost of furniture that has been made and not sold yet. It's all furniture that's not custom ordered. All material costs are tracked for each individual furniture item and recorded as Merchandise Inventory. Labor and overhead costs aren't included in the valuation. These are taken into account when the furniture is marked up to its sale price. The *Specific ID* inventory method is used to value the inventory. At the end of each period, a physical inventory (specific ID) is taken for control purposes. When an item from Merchandise Inventory is sold, the sale is recognized with a journal entry and an additional journal entry is made to transfer the furniture item that was sold out of Merchandise Inventory to COGS.

However, a large portion of the business is custom-made furniture that requires a 50% down payment, with the remaining balance payable upon delivery (unless credit has been extended to the client). Each custom order is assigned a job number. Sales Revenue is recognized with each payment, and all material costs are expensed to Purchases using that job number.

Office Supplies Inventory consists of supplies used in the general course of business. It uses a *periodic* inventory method. At the end of each period, a physical inventory is taken and the value of the inventory is determined. The book value of the inventory is then adjusted to that physical amount.

Prepaid Rent is paid at the beginning of each year in the amount of \$12,000.00 for the 12-month period.

Vehicles, Equipment, and Office Furniture and Equipment are depreciated according to a Schedule of Depreciation approved by or provided by Jeremy Grant. Any asset purchases will be put to one of these accounts and reported to Jeremy at the end of each quarter. Depreciation entries are made at the end of each period according to the schedules.

A/P is paid on time within the grace period unless otherwise specified to take advantage of discounts. Each week, the Schedule of Accounts Payable will be reviewed by Ian for payment of invoices.

Payroll is calculated on a biweekly basis. The payment is made on the following Friday. Due to Janet Adams leaving the company, no accrual entry was made at the end of November 20XX.

Federal Withholding Taxes (941 Form), which includes FWT, Social Security, and Medicare, are paid on or before the fifteenth of the month for the previous month.

State Withholding Taxes and City Withholding Taxes are paid on or before the twentieth of the month for the previous month.

FUTA and SUTA are paid on a yearly basis, and are due on or before the end of January of the next year.

Sales Tax is due on or before the twentieth of the month for the previous month. Currently, no clients are tax exempt. A client will need to provide a valid Sales Tax Exemption Certificate to be kept on file in order for Basswood Furniture not to charge sales tax.

Ian Smith will inform you as to when and how much capital he will withdraw from the company.

Expense and Revenue Summary is the same as Income Summary and is used as a *wash*, or *pass-through*, account. (A *wash* or *pass-through* account is an account whose balance should always be zero. In the closing process, the revenues, expenses, and withdraw account amounts are transferred into the expense and revenue summary account and then immediately transferred out to the capital account, keeping the balance in the expense and revenue summary account at zero. The balances are “passed through” the account.)

Tips

All forms and documentation for the project are provided in the *Documents and Forms* booklet. Documents will be referred to by form number, which appears in the upper left-hand corner of the document. An ample supply of blank forms has been provided to complete the project. If you feel you’ve made a mess of the books and wish to start all over but don’t have enough blank forms, then use notebook or copy paper. The

lines on the paper don't matter as long as the format is correct. No additional forms will be provided. There are enough forms to complete the project as intended. (If desired, make copies of the blank forms and documents before beginning the project.)

When doing math for the project, try not to use a hand-held calculator unless you absolutely have to. Instead, use a printer calculator, or better yet, an Excel spreadsheet. Enter the figures to be added in one column and sum them up. Do the same thing again in a second column. Both totals should match. If they don't, enter the figures a third time and sum them up. Two out of the three totals should match. *Don't* just assume that the matching totals are correct. Go back over the columns to see why the totals were different in the first place.

Using a hand-held calculator and just adding up the figures in a column one time leads to very error-prone results. Bookkeeping is designed to have debits *always* equal credits. Whether the entry you made is right or wrong is irrelevant when it comes to debits equaling credits. If you make a wrong entry, you should have a wrong debit that's the same as the wrong credit. A bookkeeper who is always "off" isn't accurate and won't have work for long. Therefore, use a printer calculator or Excel spreadsheet so you can see what you entered, and run the numbers more than once.

PART B—SPECIFIC INSTRUCTIONS

Steps for Completing the Project

The following are the specific steps for completing the project. It's assumed that you've obtained the knowledge to complete the steps from your previous coursework. For example, when working with the payroll steps, it's assumed that you know how to do payroll. (Only the data will be presented.) If you're not sure as to what you should do with the payroll information, go back over your lessons and workbooks relating to payroll.

While the instructions provided lead you step-by-step through the process of an accounting period from start to finish, if you're not sure what to do next or where you are in the process, then call and speak with an instructor. Remember, the instructors can help with the process, but not the specifics of the project. Instructors can't help with what journal entries to make, how to make calculations, etc.

At this point, you should have read through this study unit thoroughly, and have a good understanding of what needs to be done to complete the project. Doing this will go a long way towards making the project easier for you. You're now ready to begin.

- Fill out an Employee's Withholding Allowance Certificate (Form 1) for yourself. Every new employee must fill out this form and sign it when hired to determine how much federal withholding tax will be held from the employee's paycheck. For purposes of this project, on Line 3 you'll select "Single" for your marital status. On Line 5, you'll use 0 (zero) allowances. No additional amount will be withheld on line 6.
- Create the A/R accounts in the Accounts Receivable Subsidiary Ledger. In the *Documents and Forms* booklet, locate the section of blank forms for the Accounts Receivable Subsidiary Ledger. Write in the account name and account number on a blank form for each A/R account. Enter in the beginning balances for each account. Make sure the total of the beginning balances in the subsidiary ledger matches the balance of the A/R account on the G/L Trial Balance.
- Do the same for the Accounts Payable Subsidiary Ledger accounts.
- Open the G/L accounts by locating the section in the *Documents and Forms* booklet, entering the account name and account number on each blank form. Enter the beginning balances from the G/L Trial Balance in each account. Make sure the total of the debits for the beginning balances in the G/L accounts matches the total of the debits on the trial balance and that the total of the credits matches the total of the credits on the trial balance.

- Enter the balance in the Cash G/L account in the Balance Brought Forward field of the check register, toward the end of the *Documents and Forms* booklet next to Check No. 2260.
- Process the transactions for the month of December laid out in the following section, making journal entries, posting to the G/L accounts, and completing the forms or paperwork where necessary.

December

Thursday, December 1, 20XX

- Received a bill (Form 2) from Hemlock Gas and Electric Co. in the amount of \$137.89 on account. Make the journal entry for receipt of the bill and post to the proper G/L and subsidiary accounts.
- Received a bill (Form 3) from the Atlantic Telephone Co. in the amount of \$232.64 on account. Make the journal entry for receipt of the bill and post to the proper G/L and subsidiary accounts.
- Received Check No. 268 (Form 4) in the amount of \$7,580.00 for payment in full from Liya Designs. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.

Friday, December 2, 20XX

- Received Check No. 1231 (Form 5) in the amount of \$6,437.00 for payment in full from Yu Wei Creations. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.
- Complete a deposit ticket (found in the *Documents and Forms* booklet), dating it December 2, 20XX, and include the checks received from Liya Designs and Yu Wei Creations. On the back of each check, to endorse the checks for deposit, you would write “For Deposit Only, Account # 309921” and then take the deposit to the FCU (Federal Credit Union) where Basswood Furniture does its banking. (Naturally, since this is a simulation,

you won't actually make a deposit.) Record the amount deposited in the Check Register. Total the amount in the check register.

- Verify the posting of all of the journal entries to the G/L accounts and subsidiary accounts for the week. Verify the amount on the check register is the balance in the G/L Cash account. Any discrepancies need to be corrected.

Monday, December 5, 20XX

- Wayne Shriver and Ian met today to discuss making custom dining room, living room, and bedroom sets. The contract amount is for \$28,500.00 (including sales tax), to be delivered by the end of the month (December 31). Contracts are kept by Ian. Wayne gave Ian Check No. 10178 in the amount of \$14,250.00 (Form 6) for the 50% down payment, with the remainder to be paid in full upon delivery. This will be Job #132 for reference purposes. The down payment will be used to cover the purchase of the materials needed. The down payment, even though it's not the full amount of the sale, will be recognized as revenue with a journal entry. (If the final payment isn't received, the furniture won't be delivered and the furniture will then become merchandise inventory.)
- Received Check No. 501 (Form 7) in the amount of \$200.00 for partial payment from Sam Little. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.
- Billie Redmond sold one wine rack to Michael's Furniture in the total amount of \$1,325.00 on account (Form 8). Make a journal entry to record the sale and make a journal entry to remove the cost of the wine rack from inventory and put it to COGS. You should also adjust the Merchandise Inventory Valuation whenever you make a journal entry that affects the Merchandise Inventory account. This acts as a check. The balance on the valuation should be the balance of the G/L account. Both should be the same balance as the inventory valuation when a physical inventory is done at the end of the accounting period.

Tuesday, December 6, 20XX

- Billie Redmond went to Tom Baker to purchase the materials needed for the Shriver furniture (Job #132). The total invoice amount for the purchase was \$5,700.00 (Form 9). The purchase was made on account. Make the journal entry for the purchase of the materials to the Purchase G/L account.
- Tuesday is the day Ian likes to cut checks for payment of A/P accounts. First thing in the morning, you print out the Schedule of Accounts Payable and put it on his desk so he can decide which ones he would like to have paid. You also write on the schedule the balance that's in the checking account based on the amount in the check register. Today, Ian would like you to pay the balances in the following accounts:
 - Hemlock Gas and Electric Co.
 - The Home Improvement Center
 - Atlantic Telephone Co.
 - Two Guys Hardware
 - Cheryl Wood Designs
- Beginning with Check No. 2260, write consecutive checks for each A/P account in the correct amount, adjust the check register accordingly, and place the checks on Ian's desk for his signature. When he returns the checks to you, you'll mark the invoices as paid and mail a copy of the invoices with the checks to the vendors. (For purposes of this project, it has been assumed that you have the invoices making up the amounts in the accounts and that they're correct, even though you don't have the details for November 20XX.) Make the correct journal entries for payment of the accounts and post to the proper G/L and subsidiary accounts.

Wednesday, December 7, 20XX

- Ian sold one end table for cash in the total amount of \$291.50 to Jack Williams (Form 10). Make a journal entry to record the sale and make a journal entry to remove the cost of the end table from inventory and move it to COGS.

- Betty Gable went to an office supplies store on her lunch break with Ian's approval and purchased a printer cartridge for the office copier using her own cash. The purchase was in the total amount of \$31.79. You'll reimburse her from petty cash using a Petty Cash Voucher (Form 11). Complete the voucher. (You would normally attach the receipt to the voucher and file it in the petty cash box and have Betty sign the voucher.) Record the voucher on the Petty Cash Payments Record found in the *Documents and Forms* booklet under the correct account.
- Received Check No. 421 (Form 12) in the amount of \$860.00 for payment in full from Donna Bigelow. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.

Thursday, December 8, 20XX

- Ian met with Janet Martinez. She signed a contract for a custom-built table and chair to be used in her hallway. The amount was \$1176.60 (including sales tax). The furniture is to be delivered in one week. Janet paid cash in full (Form 13). This will be Job #133 for reference purposes. Make the journal entry for the sale and post to the proper G/L accounts.
- Billie placed an order with Everything Wood for the purchase of exotic wood for Janet Martinez. Everything Wood faxed a copy of the invoice for approval and acceptance (Form 14) of the invoice on account. They'll ship the wood overnight. Make the journal entry for the receipt of the invoice and post to the proper G/L and subsidiary accounts.
- Ian felt the need for a better air ventilation/dust collection system. He went over to Rocker Woodcraft to purchase a system, taking Check No. 2265 with him. He brought back the dust collection system and the invoice from Rocker Woodcraft (Form 15). He wrote the check in the amount of \$750.00 as partial payment, with the remaining to be billed to Basswood Furniture on account. The dust collection system is an asset. Its useful life will be three years, with a *residual value* (salvage value) of zero. Record the journal entry for the invoice in

the correct G/L accounts and create a new subsidiary ledger account for Rocker Woodcraft. Create a Schedule of Depreciation for the asset, assuming straight-line depreciation. (The purchase of the system is being made on the eighth of the month. According to GAAP, because the purchase is made before the fifteenth of the month, the depreciation of the asset can be recognized from the beginning of the month. Therefore, for depreciation purposes, at the end of the accounting period, you'll recognize one month's worth of depreciation for December as if the asset was purchased on the first of the month.) At the end of the accounting period, you'll provide Jeremy Gates with the asset information and schedule so that he can review it and make any changes if necessary.

Friday, December 9, 20XX

- The following time cards (Figure 13) were given to you during the week for you to calculate the payroll for the period ending 12/02/20XX.

Time Card	
Name	Ian Smith
P/E	12/2/XX
Date	Hours Worked
11/21	
11/22	
11/23	
11/24	
11/25	
11/28	
11/29	
11/30	
12/1	
12/2	
Total Hours	
Salary	\$2,500.00

Time Card		
Name	Billie Redmond	
P/E	12/2/XX	
Date	Hours Worked	
11/21	8.0	
11/22	8.0	
11/23	8.0	
11/24	8.0	Holiday
11/25	8.0	
11/28	8.0	
11/29	8.0	
11/30	8.0	
12/1	8.0	
12/2	8.0	
Total Hours	80.0	

Time Card		
Name	Betty Gable	
P/E	12/2/XX	
Date	Hours Worked	
11/21	8.0	
11/22	8.0	
11/23	8.0	
11/24	8.0	Holiday
11/25	8.0	
11/28	8.0	
11/29	8.0	
11/30	8.0	
12/1	8.0	
12/2	8.0	
Total Hours	80.0	

Time Card		
Name	Yourself	
P/E	12/2/XX	
Date	Hours Worked	
11/21	0.0	
11/22	0.0	
11/23	0.0	
11/24	0.0	Holiday
11/25	0.0	
11/28	0.0	
11/29	0.0	
11/30	0.0	
12/1	8.0	
12/2	8.0	
Total Hours	16.0	

FIGURE 13—Period Ending 12/02/XX Time Cards: Basswood Furniture

- Complete an Employee Earnings Record for each employee and the Payroll Register for the payroll period using the payroll information provided to you by Ian on the first day you went to work for him. Write a check payable to each employee for their net pay, beginning with Check No. 2266, and complete the attached check register. Place the checks on Ian’s desk for his signature and distribution to the employees. Ian will also be informing the employees that since the next pay date is December 23 and the business will be closed for the holiday, checks will be distributed on Monday, December 26 instead of December 23. Make and post the journal entry for the employees’ payroll. Make and post the journal entry to record the additional payroll expense to the employer for the employer’s portion of Social Security, Medicare, FUTA, and SUTA using the tax expense account.

- Make the deposit for the week. Complete a deposit ticket for the checks received from Wayne Shriver, Sam Little, and Donna Bigelow, plus the cash received during the week for cash sales. Record the amount deposited in the Check Register. Total the amount in the check register.
- Verify the posting of all of the journal entries to the G/L accounts and subsidiary accounts for the week. Verify the amount on the check register is the balance in the G/L Cash account. Any discrepancies need to be corrected.

Monday, December 12, 20XX

- Received Check No. 511 (Form 16) in the amount of \$225.00 for payment in full from Sam Little. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.
- Received Check No. 42 (Form 17) in the amount of \$925.00 for payment in full from Kenny Refinishing. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.
- Billie sold two end tables and a coffee table to Quality Furniture in the total amount of \$996.40 on account (Form 18). Make a journal entry to record the sale and make a journal entry to remove the cost of the furniture from inventory and move it to COGS. Post to the G/L.
- Billie drove to Carol's Wood Supplies and purchased on account (Form 19) materials to build the following items for merchandise inventory: 2 each DSK-0001 Desk and BCS-0001 Bookcase, and 1 FLK-0001 Footlocker. Record the items in inventory, make a journal entry for the purchase on account, and post it to the G/L.
- Ian discussed advertising and marketing with John Powell from Powell Marketing, Inc. During the meeting, Ian wanted you to write out a check to Powell Marketing, Inc. in the amount of \$1,325.00 for billboard advertising during the rest of the month of December. You wrote Check No. 2270 for that amount, using it as the invoice and receipt. After adjusting the check register, you then made a journal entry and posted it to the G/L.

Tuesday, December 13, 20XX

- Tuesday is the day to cut checks for payment of A/P accounts. You print out the Schedule of Accounts Payable and give it to Ian so he can decide which accounts to pay. You also write on the schedule the balance that's in the checking account based on the check register. Today, Ian would like you to pay the balances in the following accounts:
 - Carol's Wood Supplies (only the amount in the account as of the end of November)
 - Woodworker Supplies
 - Everything Wood (only the amount in the account as of the end of November)
 - Wood Imaginations
- Beginning with Check No. 2271, write a check for each account in the correct amount, adjust the check register accordingly, and place the checks on Ian's desk for his signature. When he returns the checks to you, you'll mark the invoices as paid and mail a copy of the invoices with the checks to the vendors. (For purposes of this project, it has been assumed that you have the invoices making up the amounts in the accounts and that they're correct even though you don't have the details for November 20XX.) Make the correct journal entries for payment of the accounts and post to the proper G/L and subsidiary accounts.
- Due to the excellent performance of the company this year, Ian has decided to give each employee a bonus of \$1,500.00 (including yourself, even though you haven't been with the company for very long). He has instructed you to issue a special payroll tomorrow. (A bonus amount is treated the same a gross pay amount.)
- Pete Schwab, a friend of Ian's, stopped in the shop to see Ian. On his way out, Billie helped Pete load a dining room set into Pete's truck. Ian presented you with a check (Form 20) in the amount of \$9,155.75 from Pete as payment in full for the purchase of DRS-0009 Dining

Room Set. The dining room set retails for \$17,275.00; however, Ian gave Pete a 50% discount. Make a journal entry to record the sale (don't forget about the discount) and make a journal entry to remove the cost of the furniture from inventory and move it to COGS. Post the entries to the G/L.

Wednesday, December 14, 20XX

- Prepare the payroll for the holiday bonus. (Use the bi-weekly Federal Withholding Chart for FWT.) Write a check payable to each employee for their net pay, beginning with Check No. 2275, and complete the attached check register. Place the checks on Ian's desk for his signature and distribution to the employees. Make and post the journal entry for the employees' payroll. Make and post the journal entry to record the additional payroll expense to the employer for Social Security, Medicare, FUTA and SUTA.
- Received Check No. 149 (Form 21) in the amount of \$125.00 for payment in full from Jim and Pearl Jones. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.
- Clean-It-Rite cleaning service performed the monthly cleaning of the offices and shop. Ian paid the invoice (Form 22) with Check No. 2279 in the amount of \$275.00. Make the journal entry as a miscellaneous expense and post the entry to the G/L.
- Delivered custom furniture for Janet Martinez on Job #133.

Thursday, December 15, 20XX

Tomorrow, Ian is treating all employees and their families to a holiday party. Therefore, daily work that would normally be done tomorrow will need to be completed today.

- Federal payroll withholding taxes need to be paid by the fifteenth of the month for the previous month's withholdings. The federal withholding tax (commonly referred to as the *941 Tax*) consists of the FWT withheld from the employees and FICA. It's submitted using Form 8109. FICA is made up of the Social Security and Medicare

withholdings from the employees and the matching amounts from the employer. The amount to be paid is for the previous month—November 20XX. Look at the entries made in the G/L accounts to determine the amounts that need to be paid. (*Don't* just look at the balance in the accounts. If you assume the balance of the G/L account is the amount to be paid, you'll be incorrect. Most likely, the balance includes a payroll entry for the current month along with the balance from the previous month. Once a mistake is made, it can take up to two years of going back and forth with the government to get the error corrected.)

- Complete Form 8109 (Form 23), writing in the amount of the deposit and the company's EIN number, which is 40-37462. (Form 8109 acts as a deposit slip for the tax. When you complete the form and write the check, you'll take it to the bank to make the deposit—"deposit" in this case meaning a withdrawal from your checking account and deposit into the government's account.) Color in the tilted oval next to "941" as the Type of Tax and the quarter that the tax period pertains to (November is in the fourth quarter). Write Check No. 2280, payable to "U.S. Treasury," for the amount to be deposited. Be sure to write the EIN, type of tax, and tax period on the check. This deposit must be stamped by the fifteenth of the month. This is a *high priority*, since today is the fifteenth. Waiting until tomorrow will incur substantial penalties and interest.
- Make the bank deposit, including the checks and/or cash received during the week. Record the amount deposited in the Check Register. Total the amount in the check register.
- Pennsylvania Sales Tax is to be remitted to the state by the twentieth of every month in the amount collected for the previous month—in this case, November 20XX. Just as you did with remitting the federal payroll taxes for the previous month, you need to look at the entries in the G/L account and determine the total amount that was collected for the month of November. Complete the PA Dept. of Revenue Sales Tax Collection Bureau form

(Form 24). Use it to make the journal entry and post the entry to the G/L. Payment of the sales tax will be done electronically through the government's Web site. In the checkbook, void Check No. 2281 and complete the check register showing the payment to the "PA Dept. of Revenue—ETF" for the amount of the remittance. (*ETF* stand for "Electronic Transfer Funds.")

- Verify the posting of all of the journal entries to the G/L accounts and subsidiary accounts for the week. Verify that the amount on the check register is the balance in the G/L Cash account. Any discrepancies need to be corrected.

Friday, December 16, 20XX

The holiday party was wonderful. The only work required for the day is to reimburse Ian \$187.50 for the receipts he provided you for having the party catered, out of petty cash.

- Create a petty cash voucher (Form 25) and make the entry to the Petty Cash Payments Record.

December 19–23, 20XX

The business is closed for the week before Christmas.

Monday, December 26, 20XX

- The following time cards (Figure 14) were given to you during the week for you to calculate the payroll for the period ending 12/16/20XX.
- Complete an Employee Earnings Record and the Payroll Register for the payroll period ending 12/16/XX. Write a check payable to each employee for their net pay, beginning with Check No. 2282, and complete the attached check register. Place the checks on Ian's desk for his signature and distribution to the employees. Make and post the journal and the additional payroll tax expense to the employer.

Time Card	
Name	Ian Smith
P/E	12/16/XX
Date	Hours Worked
12/5	
12/6	
12/7	
12/8	
12/9	
12/12	
12/13	
12/14	
12/15	
12/16	
Total Hours	
Salary	\$2,500.00

Time Card	
Name	Billie Redmond
P/E	12/16/XX
Date	Hours Worked
12/5	8.0
12/6	8.0
12/7	8.0
12/8	8.0
12/9	8.0
12/12	8.0
12/13	8.0
12/14	8.0
12/15	8.0
12/16	8.0
Total Hours	80.0

Time Card	
Name	Betty Gable
P/E	12/16/XX
Date	Hours Worked
12/5	8.0
12/6	8.0
12/7	8.0
12/8	8.0
12/9	8.0
12/12	4.0
12/13	4.0
12/14	4.0
12/15	4.0
12/16	8.0
Total Hours	64.0

Time Card	
Name	Yourself
P/E	12/16/XX
Date	Hours Worked
12/5	8.0
12/6	8.0
12/7	8.0
12/8	8.0
12/9	8.0
12/12	8.0
12/13	8.0
12/14	8.0
12/15	8.0
12/16	8.0
Total Hours	80.0

FIGURE 14—Period Ending 12/16/XX Time Cards: Basswood Furniture

- Ian met with Fran Ogilvy from The Capitol Media Group, Inc. about television advertising for the next quarter, January 1 through March 31, 20XX. Ian wrote Check No. 2286 in the amount of \$8,725.00 to The Capitol Media Group, Inc. in payment of the invoice (Form 26) for the prepaid advertising. You'll need to create a new G/L account #145 for Prepaid Advertising. Journalize and post the entry, completing the check register.
- Reimburse the petty cash by writing Check No. 2287 for the total amount of the receipts in the Petty Cash Payments Record, making the check payable to "Cash." Journalize the entry from the Petty Cash Payments Record and post it to the G/L accounts. Cash the check at the FCU and replenish the cash in the petty cash box. The amount of cash in the box should be the imprest amount.

Tuesday, December 27, 20XX

- Print out the Schedule of Accounts Payable and give it to Ian so he can decide which accounts to pay. You also write on the schedule the balance that's in the checking account based on the check register. Ian has decided not to pay any of the A/P this week.
- Received Check No. 631 (Form 27) in the amount of \$1,234.00 for payment in full from Elizabeth Dante. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.
- Received Check No. 11304 (Form 28) in the amount of \$350.00 for payment in full from The Antique Shoppe. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.

Wednesday, December 28, 20XX

- Received Check No. 172 (Form 29) in the amount of \$50.00 for payment in full from Andy Mellow. Make the journal entry for receipt of the check and post to the proper G/L and subsidiary accounts.
- Delivered the custom furniture to Wayne Shriver for Job #132 (Form 30). Received payment for the invoice (Form 31) with Check No. 10769 in the amount of

\$14,250.00. Since the down payment was already received and a journal entry already made to recognize that portion of the sale, make the journal entry for receipt of the check and post to the proper G/L accounts.

- Ian wishes to make a withdrawal from his capital account. He presents you with a memo (Form 32) for the withdrawal. You make Check No. 2288 payable to Ian Smith in the amount of \$5,000.00 and use the memo to create and post the journal entry to the G/L.

Thursday, December 29, 20XX

- Liya Adams from Liya Designs stopped by the store to return an end table. The cost to make the custom-built end table was \$150.00. This end table will be added to Merchandise Inventory as Item No. ETB-0012. Ian agreed to issue her a credit memorandum (Form 33) and she agreed that the credit could be put on her account. Make the journal entry for the credit memorandum and post to the proper G/L and subsidiary accounts.

Note: This can be a difficult entry to make. You need to think through the transactions and the journal entries made to be able to come up with the correct journal entry. This is where using T-accounts as a tool helps. First, a sale was made that was on account. The cost of the materials for the custom-built furniture was paid for with a check and put against purchases to have the expenses match the revenues. These transactions occurred in November. The accounting period was closed and the profit transferred to the capital account. Then in December, the receivable was paid for with a check. Now the item is being returned and being entered into inventory. Instead of a check or cash, a credit to her account is being given.

Friday, December 30, 20XX

Today is the last working day in the accounting period. Therefore, there are a few things that need to be done to be able to close out the accounting period.

Note: For most businesses, the tasks will be similar. For example, physical inventories need to be taken. However, each business will have its own set of tasks that will need to be done. Also, just because it's the last day of the month doesn't mean that the financial statements for the period end will be completed on that day. They'll usually be completed sometime into the next period, depending upon the size of the business and the amount of work involved.

- You inform Betty that she needs to take a physical inventory of all the merchandise that's on hand, including the item number, a description of the item, and how many of the item are physically present. When she returns the form with the inventory, you'll extend the costs of the merchandise and use it as your merchandise inventory valuation. This amount should be the same amount as the balance in the Merchandise Inventory account in the G/L. If it's not the same, the discrepancy must be looked into and a correction made.

Note: The reason Betty, the secretary, is taking the inventory is for control purposes. If Billie takes the inventory, it's too easy for her to put down the quantity of an item as, say, six, when only five are physically there because she stole one. This is only one small part of the control systems that accountants learn when getting their education.

- You inform Billie that she needs to take a physical inventory of all of the office supplies that are on hand. When she returns the form with the inventory, you'll extend the costs of the office supplies and use it as your office supplies valuation.
- The following time cards (Figure 15) were given to you during the week for you to calculate the payroll for the period ending 12/30/20XX. Since the employees won't be paid for the pay period ending 12/30/20XX until January 6, 20XX, this information will be needed to make a payroll accrual adjusting entry when creating the financial statements and closing out the accounting period.

Time Card	
Name	Ian Smith
P/E	12/30/XX
Date	Hours Worked
12/19	
12/20	
12/21	
12/22	
12/23	
12/26	
12/27	
12/28	
12/29	
12/30	
Total Hours	
Salary	\$2,500.00

Time Card		
Name	Billie Redmond	
P/E	12/30/XX	
Date	Hours Worked	
12/19	8.0	Holiday
12/20	8.0	Holiday
12/21	8.0	Holiday
12/22	8.0	Holiday
12/23	8.0	Holiday
12/26	8.0	
12/27	8.0	
12/28	8.0	
12/29	8.0	
12/30	8.0	
Total Hours	80.0	

Time Card		
Name	Betty Gable	
P/E	12/30/XX	
Date	Hours Worked	
12/19	8.0	Holiday
12/20	8.0	Holiday
12/21	8.0	Holiday
12/22	8.0	Holiday
12/23	8.0	Holiday
12/26	8.0	
12/27	8.0	
12/28	8.0	
12/29	8.0	
12/30	8.0	
Total Hours	80.0	

Time Card		
Name	Yourself	
P/E	12/30/XX	
Date	Hours Worked	
12/19	8.0	Holiday
12/20	8.0	Holiday
12/21	8.0	Holiday
12/22	8.0	Holiday
12/23	8.0	Holiday
12/26	8.0	
12/27	8.0	
12/28	8.0	
12/29	8.0	
12/30	8.0	
Total Hours	80.0	

FIGURE 15—Period Ending 12/30/XX Time Cards: Basswood Furniture

- Make the bank deposit. Record the amount deposited in the Check Register. Total the amount in the check register.
- Verify the posting of all of the journal entries to the G/L accounts and subsidiary accounts for the week. Verify the amount on the check register is the balance in the G/L Cash account. Any discrepancies need to be corrected.

January

Monday, January 2, 20XX

You'll begin to close out the end of the accounting period for December. To do this you'll be using the blank forms in the *Documents and Forms* booklet. You'll use the Worksheet and then use the forms provided for creating the financial statements.

- On Friday, December 30, you should have made sure that you posted all the entries in your journal to the G/L accounts. If this hasn't been done, then you *must* do it now. Once done, total the balances in the G/L accounts.
- Create a 10-column Worksheet. (Review the study guide *Financial Reports* along with the associated accounting practices in the workbook for completing the Worksheet if you're unsure as to what you need to do.) The first two columns should be labeled Trial Balance. The next two should be labeled Adjustments. The next are Adjusted Trial Balance, Income Statement, and Balance Sheet. Each set of columns will have a debit and a credit column. Down the left side of the worksheet list all the G/L accounts and put their balances in the appropriate debit or credit column under Trial Balance. These are your Pre-Adjusted Trial Balance figures. *Foot* (total) the debit column and credit column. *Your debits must equal your credits.*

If your debits don't equal your credits, then you've made a technical error somewhere. This error must be corrected before you can go any further. Often this is just a math error. (This is why it was suggested you use a printer calculator or Excel spreadsheet, to help you find math errors.) Subtract the two totals and come up with a figure. Then scan your work, looking through the journals and the general ledger accounts to see where the mistake may be.

Note: You should *not* start the project over. This is a waste of time, and can lead to further errors. If the error can't be found by carefully looking over your work, then follow the procedure laid out below.

Debits Equaling Credits Error Detection Procedure

It's important to realize that debits not equaling credits has nothing to do with whether the journal entries made are right or wrong. As an example, let's say you pay rent in the amount of \$1,100.00. The entry for this should be a debit to Rent Expense for \$1,100.00 and a credit to Cash for \$1,100.00. However, for whatever reason, the journal entry made is a debit to Rent Expense for \$1,010.00 and the credit to Cash for \$1,010.00. While this entry is wrong because it should be for \$1,100.00, that's irrelevant. The debit of \$1,010.00 is equal to the credit of \$1,010.00. Debits equaling credits is purely a mechanical/technical issue unrelated to the correctness of the journal entry made. Therefore, focus on the numbers while following these steps:

1. Get several different-colored highlighters and make a copy of the journals.
2. Set the original journals aside. You'll use them only to make the correction when you've found a mistake.
3. Look at each journal entry. Look to see that the first entry has a debit equal to the amount of the credit. If they're the same or equal for a multiple-line entry, take a yellow highlighter and highlight those numbers. Continue doing this for each and every journal entry. When you come across a journal entry that has multiple line items, such as the payroll entry, do the math several times when adding up the debit or credit. Do each and every journal entry this way. *Don't* just add up the debits on the page and the credits on the page to see that they equal. You need to look at each journal entry.
4. If you find an error, correct the original copy of the journal and the associated G/L account. If the error is in the amount that makes your debits equal your credits, then you're finished. If not, then you must continue on. Remember, just like a bank reconciliation, if you're off by some amount there may be multiple errors that net out to that amount. Therefore, if you're still off, keep looking.
5. If you've gone through all of the journals and have highlighted all the journal entries but haven't found the error, then you'll need to make a copy of the General Ledger. Put the original aside.
6. Using the copy of the highlighted journals and the copy of the G/L, take a different colored highlighter and begin checking the posting of the journal entries to the G/L accounts.
7. This time, you're not looking at each entry. Instead, you're looking at each line item of each entry. Look at your first journal entry and the first line item, which should be a debit (it should be a debit because when making correct journal entries, the debits are listed first before the credits) and look at the G/L account to which it was posted. Is it on the debit side of the account? Is it the same exact number? If the answer to these two questions is yes, then highlight the number in the journal and the number in the ledger signifying that it's correct. Go through each and every line item in each and every journal entry, highlighting when the posting is correct.

(Continued)

Debits Equaling Credits Error Detection Procedure—Continued

8. If an error is found, correct it on the original. Again, if the correction brings the total debits back in line to equal your credits, you should be finished. If not, you must keep looking.
9. If you highlight all of the journal entries and their associated postings to the G/L accounts and haven't found the error, it's time to do the math to get the balances in the G/L accounts. In a G/L account, add up the debits several times. Add up the credits several times. Subtract one from the other, giving you a balance. Whichever total figure was greater, the debit or the credit, the balance goes on the greater side. If the balance is correct, then place a checkmark next to the figure. If an error was made, correct it on the original copy of the G/L.
10. If no error to the balances of the G/L accounts has been found, make a copy of the Worksheet and set the original aside. Get out another colored highlighter and begin with the first G/L account. Verify that the balance of the debit or the credit has been transferred to the Worksheet correctly—that is, it's on the correct debit or credit side and in the correct amount. If so, then highlight the G/L account balance and the figure on the Worksheet. If not, make the correction on the original. If the correction brings the total debits back in line to equal your credits, you're finished. If not, you must continue.
11. If you've highlighted all of the figures on the Worksheet, the last thing to do is to foot the debits and credits on the Worksheet several times for accuracy. The total amounts should be equal.
12. If you focus and follow this procedure, you should be able to find the error or errors and correct them.

Sometimes, you can get to the end of this procedure and still have your debits not equal the credits. If this happens, then you not only made an error when you were originally doing the books, but you also then made an error somewhere in doing the procedure and you should go back through it again, making fresh copies of the original books.

There's no excuse for the debits not equaling the credits. This is the fundamental, underpinning rule of bookkeeping. Debits equaling credits goes a long way toward preventing "cooking the books." It's the foundation of financial statements and the basis of the accounting equation. The accounting equation is found on the Balance Sheet, and if it doesn't balance, something is wrong and the statement has no credibility. If the financial statements are fudged to bring them into balance, this opens up the company to legal liabilities.

- Assuming that the debits equal the credits in the Trial Balance columns of the Worksheet, making adjusting/correcting entries is the next step in the process of closing out the period. In the workplace it's usually the controller/accountant who handles the worksheet, making the adjusting journal entries, creating the financial statements, and making the entries to close out the accounting period. You're doing these procedures to become familiar with the process. It's also possible that the company will need financial statements for its own internal use. Instead of paying a CPA to create financial statements that will never be seen outside the company, they'll look to you (especially if you're a full-charge bookkeeper), to create those financial statements.
- To make adjustments, look at each G/L account to make sure it's correct. You start at the top of the Trial Balance and work your way down, account by account. If an adjusting entry does need to be made, it should be dated on the last day of the period (12/31/XX for the project) to have it go into the correct accounting period.
 - Is the G/L Cash—Business Checking account balance the same as the Check Register? If not, an adjusting entry might need to be made to correct the discrepancy.

The reason for the word “might” is because the Check Register *must* be reconciled to the Bank Statement for the period. In the workplace, you would do a bank reconciliation and make adjusting entries for things like service charges, NSF charges, errors in amounts, etc. However, for this project, we're assuming that the balance in the Check Register is the same balance on the Bank Statement and no adjusting entry is needed if your G/L Cash account has the same balance as the Check Register. If not, then an entry would need to be made to correct the error. What you *don't* do is go back and change the incorrect entry. Instead, you should make the adjusting entry with an explanation of the error and what this adjusting journal entry is doing

to correct it. This is what you do whenever you're correcting an error. You *never* just go back and change the original entry. Doing this violates GAAP.

- Is the Petty Cash imprest amount \$500.00? If yes, then no adjusting entry needs to be made.
- Create an Accounts Receivable Subsidiary Ledger Trial Balance. This is nothing more than a listing of the A/R accounts and the balances in those accounts with a total amount, similar to a G/L Trial Balance (T/B). (The same will be done for the Accounts Payable Subsidiary Ledger and G/L A/P account.) Are the balances in the Accounts Receivable Subsidiary Ledger Accounts correct? If not, then the error needs to be found and an adjustment made. If yes, is the total balance of the Subsidiary Ledger the same as the balance in the G/L A/R account? If so, then no adjusting entry needs to be made. If not, then the error needs to be found and an adjustment made.
- *Extend* the value (calculate the total amount) of the Merchandise Inventory from the physical inventory Betty gave you as the Merchandise Inventory Valuation. This amount should be the same as the amount in the G/L Merchandise Inventory account. If not, an adjustment should be made. *Note:* Before making that adjusting entry, go back over the transactions for the month and look at those that affected Merchandise Inventory. At the beginning of the period, the amount in the G/L account was the same as the physical inventory at the end of the accounting period in November. Therefore, whenever an item was taken out of or put into the physical inventory, a journal entry should have been made to Merchandise Inventory. The balance in the account should have always matched the physical inventory because Basswood Furniture uses the specific ID method of inventory. (*Specific ID* is used when you can specifically account for each item. For example, in a car lot that has 10 cars in inventory, you know each specific car's VIN. When the 2011 Cadillac gets sold, you know exactly which one should be removed

from inventory and its cost. It's not useful for something like keeping an inventory of M&Ms. How do you know which bag is sold or stolen?)

- Extend the value of the Office Supplies Inventory from the physical inventory Billie gave you. The Office Supplies Inventory Valuation comes to \$178.46. (You're not being given the specific breakdown of the physical inventory. You'll just use the figure of \$178.46 as the value of the physical inventory. You don't need to create the Office Supplies Inventory Valuation for the project.) Adjust the Office Supplies Inventory to the correct amount.
- Rent was prepaid at the beginning of the year. Using the information provided to you when you first started working, make an adjustment to the Prepaid Rent.
- Does an adjusting entry need to be made for Prepaid Advertising, and if so how much?
- The Vehicles account should be the same because there were no new purchases. However, an adjusting entry for depreciation needs to be made in the Accum. Depr.—Vehicles account. Take the figure from the Schedule of Depreciation.
- The air ventilation/dust collection system was purchased. Make sure the balance in the Equipment account is correct and make the adjusting entry for depreciation in the Accum. Depr.—Equipment account. Take the figures from the Schedule of Depreciation.
- The Office Furniture and Equipment account should be the same because there were no new purchases. However, the adjusting entry for depreciation needs to be made in the Accum. Depr.—Office Furniture and Equipment account. Take the figures from the Schedule of Depreciation.
- Verify the balance in the Accounts Payable Subsidiary Ledger with the balance in the G/L A/P account the same way that you did with the G/L A/R.

- On Friday, you received the time cards for the P/E 12/30/XX. Since the next pay date isn't until 01/06/XX an adjusting journal entry needs to be made in the Payroll account to get the payroll into the correct accounting period. Calculate and make the adjusting accrued payroll entry. (*Note:* Once this accounting period is closed, additional journal entries would need to be made reversing the accrual entries for payroll. If the reversing entries aren't made, then when you calculate and pay the payroll on 01/06/XX, you'll be making entries to the G/L accounts twice.)
- Go through the rest of the G/L Accounts looking at the detail in each account to see if anything unusual strikes you from what you know about each account. If any errors are found, an adjusting entry should be made.

Note: When you're making an adjusting entry, you're making a journal entry in a journal. The amount (debit or credit) for those accounts are also entered in the adjustment columns of the Worksheet. When all of the adjustments have been journalized and the amounts are on the Worksheet, foot the debit column and the credit column. On the Worksheet at this point, the debits should equal the credits in the Trial Balance columns and the Adjustment columns.

- Once all the adjusting entries have been journalized, post the entries to the G/L accounts on the books. Create a new Trial Balance. This is called the *Adjusted Trial Balance*.
- On the Worksheet, do the math for the Adjusted Trial Balance column. For example, in the Cash—Business Checking account, total the debits and total the credits from the Trial Balance and Adjustment columns. Subtract one from the other and enter the amount in the Adjusted Trial Balance column. Do this for each G/L account and then foot the debit and credit columns. The debits must equal the credits.

- Compare the Adjusted Trial Balance with the Adjusted Trial Balance columns on the Worksheet. They should be the same. If not, find the error and correct it.

Note: You're doing this because the accountant works on the Worksheet. He or she writes down the adjustments that need to be made as journal entries and hands them to you to enter and post to the books. You're taking care of the books; the accountant is taking care of the Worksheet. If you make an error in entering and posting the journal entries, then the books aren't correct based on what the accountant has on the Worksheet. Conversely, you, the bookkeeper, may make and post the journal entries correctly. However, the accountant can make a math error on the Worksheet. Doing it this way provides a check so the information is accurate.

- If the Adjusted Trial Balance and the Worksheet are in agreement, then extend the account balance to the proper Balance Sheet or Income Statement columns on the Worksheet. Foot the debit and credit columns for each. When doing this, the debits and credits *won't* be equal in the Income Statement or Balance Sheet columns. The Balance Sheet will be "off" by the profit or loss from the Income Statement. (The accounting equation is found on the Balance Sheet. When you make journal entries, as long as they only affect the accounting equation accounts, the Balance Sheet would be in balance. As soon as a journal entry is made to a revenue or expense account, the accounting equation is out of balance. If the accounting equation is out of balance, the Balance Sheet is out of balance. This is why the debits don't equal the credits when you transfer the figures over to their respective columns. This is also why we must make closing journal entries at the end of the accounting period—to bring the Balance Sheet back into balance.)
- At the bottom of the Income Statement columns, subtract the debit from the credit. This amount is the profit/loss. Obviously, if the credit is larger than the debit, then there's a profit. If the debit is larger than the credit,

there's a loss. To have the debits equal the credits, you'll need to place the amount of the difference under the column with the smaller figure. (What you're doing here is representing your closing journal entries, when you'll move the profit/loss to the capital accounts.) Whichever column you entered that amount to (debit or credit) you'll make the opposite entry under the Balance Sheet columns. For example, if your credit is greater than your debits by \$500, then you have a profit of \$500. To represent the closing entries, which bring the accounting equation back into balance, and to bring the Income Statement and Balance Sheet debits and credits back into balance, you'll need to enter the \$500 on the Income Statement debit side and the Balance Sheet credit side. Foot the columns. The debits should equal the credits for both the Income Statement and Balance Sheet columns.

(*Note:* If necessary, review the *Financial Reports* study guide and workbook accounting practices covering the Worksheet.)

- The Worksheet is complete. All that remains to do is to create the Income Statement, make and post closing journal entries, and create the Balance Sheet.
- Ian has copies of the Balance Sheet and Income Statements (Figures 16 and 17) in a Microsoft Word file from the quarter ending September 20XX.

Create an Income Statement for the period ending December 31, 20XX using MS Word. (You should use the financial statements shown in Figures 16 and 17 as a template to create the new financial statements. However, that doesn't mean you should copy them. There might have been changes over the course of the accounting period that would need to be taken into consideration when creating the new financial statements.)

- Make closing journal entries (dating them the last day of the accounting period) and post them to the G/L accounts. (Look back in your program materials if you're unsure how to make closing entries.)

BASSWOOD FURNITURE		
BALANCE SHEET		
As of September 30, 20XX		
ASSETS		
Cash – Business Checking		\$ 14,111.96
Petty Cash		500.00
Accounts Receivable		2,350.00
Merchandise Inventory		19,425.00
Office Supplies Inventory		168.36
Prepaid Rent		3,000.00
Vehicles	\$ 48,000.00	
Less: Accum. Depr. – Vehicles	<u>6,333.28</u>	41,666.72
Equipment	23,500.80	
Less: Accum. Depr. – Equipment	<u>5,875.20</u>	17,625.60
Office Furniture & Equipment	6,125.04	
Less Accum. Depr. – Office Furniture & Equipment	<u>1,531.26</u>	4,593.78
TOTAL ASSETS		<u>\$ 103,441.42</u>
LIABILITIES		
Accounts Payable		\$ 2,396.33
Payroll Payable		—
Federal Income Tax Payable		584.82
Social Security Tax Payable		508.23
Medicare Tax Payable		118.86
State Income Tax Payable		251.66
City Income Tax Payable		81.97
FUTA Tax Payable		850.95
SUTA Tax Payable		5,743.94
Sales Tax Payable		<u>3,247.50</u>
TOTAL LIABILITIES		13,784.26
OWNER'S EQUITY		
Ian Smith, Capital		89,657.16
TOTAL OWNER'S EQUITY		<u>89,657.16</u>
TOTAL LAIBITLITIES AND OWNER'S EQUITY		<u>\$ 103,441.42</u>

FIGURE 16—Balance Sheet for the Third Quarter: Basswood Furniture

**BASSWOOD FURNITURE
INCOME STATEMENT
For the Period Ending September 30, 20XX**

REVENUES		
Sales Revenue	\$ 54,125.00	
Less: Sales Returns and Allowances	—	
Less: Sales Discounts	<u>1,250.00</u>	
Net Sales		\$ 52,875.00
COGS - Cost of Goods Sold		3,275.00
Purchases	7,550.00	
Less: Purchase Returns and Allowances	325.00	
Less: Purchase Discounts	—	
Net Purchases		<u>7,225.00</u>
GROSS PROFIT		42,375.00
SELLING AND ADMINISTRATIVE EXPENSES		
Payroll Expense	\$ 5,860.00	
Payroll Tax Expense	436.57	
Advertising Expense	16,450.00	
Rent Expense	1,000.00	
Office Supplies Expense	68.95	
Telephone Expense	154.00	
Utilities Expense	317.64	
Supplies Expense	75.14	
Miscellaneous Expense	68.23	
Depreciation Expense	1,614.60	
Cash Short and Over	20.00	
TOTAL SELLING & ADMIN EXPENSES		<u>26,065.13</u>
NET PROFIT/LOSS		<u>\$ 16,309.87</u>

FIGURE 17—Income Statement for the Third Quarter: Basswood Furniture

- Create a Post-Closing Trial Balance. (This is a G/L Trial Balance after you make and post the closing entries.) Compare the balances on the Trial Balance with the figures in the Balance Sheet column of the Worksheet. Remember, the closing entries change the balances of the equity accounts. You had previously simulated the closing entries on the Worksheet to account for this.
- Create the Balance Sheet as of December 31, 20XX from the Post-Closing Trial Balance

Note: At this point, you're finished closing the accounting period and would set up the books for the next accounting period. You don't need to do that for this project. You've now finished all the steps of the project. All that's left is to double-check your work and submit the project.

Formatting Financial Statements

The formatting of financial statements is very important. These are professional documents. They reflect the image, mindset, and character of the business. Poorly formatted statements make the reader wonder: If the business can't pay attention to something as simple as typing and formatting, then how is it going to perform in business relationships? Will it care enough to correct mistakes? Will it even pay attention when creating the product or performing the service in the first place? Capital investors won't invest in a business if the financials are poorly formatted. Unless the annual reports and other financials look sharp, they won't even look at the information. If the annual report of a big business like Apple, Microsoft, Caterpillar, or Deere contains even one small typographical error, they'll scrap the whole printing job, costing thousands of dollars, and reprint the documents so they're top quality and accurate.

GAAP sets the standard for the creation and presentation of financial information to which all businesses must conform. Otherwise, two automobile dealerships on opposite sides of the street would have two completely different-looking sets of financial statements. Anyone looking at them wouldn't be

able to understand or analyze the information presented, let alone use them for comparison purposes. This could potentially create legal liabilities.

Financial statements are created for either internal or external use. When the financial statements are intended to be used outside the business, they're referred to as *Classified*—a very important designation. These must follow GAAP strictly. When the financial statements are created only for use within the company, they're created following GAAP, but liberties can be taken to make the analysis of the statements easier for the company's needs, since no one outside the business will see them. Because the statements stay within the company, their appearance isn't as important as clarity.

An important part of GAAP is the presentation of the financial information. The following elements are important for creating the proper format:

1. Headings and subheadings
2. Account names and descriptions
3. Spacing
4. Number of columns
5. Indentations
6. Underlining and double underlining
7. Dollar signs

Headings

Every page of every financial statement should have the proper heading, which consists of the business name, the type of financial statement, and the date. The Balance Sheet is dated “As of” a specific date because it reflects the financial position of the company from its inception up to that specific date. The Income Statement is dated “For the Period Ending” a date because it reflects the balances in the accounts for an accounting period.

Account Names and Descriptions

Financial statements contain various sections and subsections that should be labeled with the appropriate subheadings. Account names and descriptions should closely mimic the General Ledger account names. However, descriptions such as “Net” and “Total” should be used where appropriate.

Spacing

The statements should continue on down to the bottom of the page before being continued onto the next page. There should *not* be a break toward the end of a page just because the sectioning of the statement would seem to fit better on the next page. For example, leaving the bottom of the Assets page blank because the Liabilities and Owner’s Equity sections seem to fit better on a separate page is incorrect. The blank lines at the bottom of the page indicate that there’s information missing. Continue to the bottom of the page and then start a new page, or else resize the information to include it all on the same page. If the financial statement has only one page, no number is needed. If there’s more than one page, the pages should be designated as “Page X of Y” on the top or bottom of the page.

Columns

Financial statements can be created in two different formats:

1. Single-step format
2. Multi-step format

This project requires that you create the Balance Sheet and Income Statement in the multi-step format, which is the most commonly used. The multi-step format is created when the mathematical calculations use multiple columns.

Indentation

Indentation is an important part of formatting. Whenever there’s a new calculation or a new section on a financial statement, indentation of the account names and

descriptions can occur. This format allows for a better visual understanding of the calculations and sections of the financial statements.

Underlining and Double Underlining

Underlining is used whenever a mathematical calculation is performed. Double underlining is used whenever a final calculation has been performed; it indicates that there's no further operation to occur using that number.

The Balance Sheet represents the accounting equation. When working with the Assets section of the statement, Total Assets is the last calculation to be performed and, therefore, should have a double underline underneath it. The absence of a double underline would indicate that the Total Assets should be added to the Total Liabilities and Total Owner's Equity, which is incorrect. Conversely, Total Liabilities is *not* a final calculation, because it's going to be added to the Total Owner's Equity. Therefore there should *not* be a single or double underline under Total Liabilities. A single underline *should* be used under the Total Owner's Equity because a mathematical calculation is going to be performed with it using the Total Liability figure. A double underline will be used under the Total Liabilities plus Total Owner's Equity calculation because this signifies the final result of a calculation.

Dollar Signs

Dollar signs should be included at the beginning and end of every calculation.

Pitfalls of Poor Formatting

When formatting elements such as underlines and double underlines aren't used properly, someone who knows how to read financial statements using GAAP could misinterpret the financial statements and make incorrect business decisions based upon the information and formatting that was provided. When incorrect assumptions are made from classified statements, it's possible for the person using the statements to have legal recourse against the business for financial data

misrepresentation. This is why all businesses should have either a trained accountant or CPA create classified financial statements.

PART C—GRADING PROCEDURE

The following guidelines will be used for grading the project. There are two components for grading the financial statements submitted:

- Format—the way the statements look
- Content—the actual numbers on the financial statements. These numbers can be the balances that are in the G/L accounts or they can be figures derived from mathematical calculations.

When the project is submitted for grading, the financial statements will be inspected for proper formatting. If the statements aren't in the proper format (i.e., they don't meet the basic standards as discussed previously and don't conform to the presentation of financial statements for Basswood Furniture), the project will be returned as not graded to allow you to correct the formatting. If there are only a few minor formatting infractions (a *minor infraction* is something like missing an underline or double underline), the project will be graded and small point deductions will be taken. It's understood that you're a student, and you're still in a learning process. However, you're learning what's expected in the business world and must therefore comply with those standards.

If the financial statements are found to have too many minor formatting infractions, or a *major infraction* such as using single-step instead of multi-step formatting, the project will be returned ungraded. Returning the project as not graded indicates that it most likely would have received a failing

grade, and provides an opportunity to correct gross errors. Only one resubmission due to improper formatting will be allowed. The resubmission will be graded as is.

The project will be graded primarily on content, with additional points deducted for formatting infractions. The project is worth 100 points. Grading will be done as follows:

- Balance Sheet (Subtotal = 56 points)
 - Content (46 points)
 - Format (10 points)
- Income Statement (Subtotal = 44 points)
 - Content (36 points)
 - Format (8 points)

If the project is graded and a failing grade of less than 70 is given, the project will be returned. It will need to be reworked and resubmitted to complete the project and bookkeeping program.

Note: Don't wait until the last minute to complete and submit the project. You may wind up rushing through it to get it submitted before your program's expiration date. By planning ahead and taking the time necessary to focus on what you're doing, you decrease stress and give yourself the best chance of success.

Submitting Your Work

The preferred and fastest way for the project to be graded is by submitting your work online. Create your Balance Sheet and Income Statement in a Word document and save it to your computer. Submit your graded project online by uploading the finished copy of the Word file to the school. The name of the file should be your student number followed by an underscore and then the number for this exam. For example, the file name could be **65394112_390907.doc** (or **.docx**). Grading can take up to one week depending upon instructor workload.

Follow these steps to submit your project file:

1. Go to **<http://www.takeexamsonline.com>** and log in.
2. Go to **My Courses**.
3. Click on the **Take Exam** button next to this lesson.
4. Enter your e-mail address in the box provided. (*Note:* This information is required for online submissions.)
5. Upload a copy of the completed file as follows:
 - a. Click on the **Browse** box.
 - b. Locate your finished copy of the MS Word file.
 - c. Double-click on the file.
 - d. Click on **Upload File**.
 - e. If you ever have more than one file to attach in a project submission, repeat steps a-d.
6. Click on **Submit Files**.

While submitting the graded project online is the preferred method, you can also submit your project by mail using the Answer Sheet on the next page. Cut out the Answer Sheet, filling it in with your name and student ID number. Mail it with your Balance Sheet and Income Statement to the address at the bottom of the Answer Sheet. It's suggested that you send the project "signature requested" to ensure that it's signed for by someone at Penn Foster. This way you know when it's received, and that it hasn't been lost in the mail. Grading a project submitted by mail will take at least two weeks from the time it's received at Penn Foster, depending upon instructor workload.

Whichever way you submit your project, be sure to keep a backup copy for yourself.

ANSWER SHEET

FOR YOUR INSTRUCTOR'S USE	
GRADE	GRADED BY

STUDENT NUMBER:

--	--	--	--	--	--	--	--	--	--

PLEASE PRINT

EXAMINATION NUMBER 39090700

Basswood Furniture Project

NAME _____

Bookkeeping

ADDRESS _____

CITY _____ STATE/PROVINCE _____ ZIP/POSTAL CODE _____

Check if this is a new address

PHONE

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Only the Answer Sheet, Balance Sheet, and Income Statement are to be submitted for grading.

Write your name and student number on each page of your examination, and fill out the top half of this answer sheet. Then, submit your financial statements with this answer sheet to the school for grading.

Points will be given as follows for properly formatted statements:

Balance Sheet (Subtotal = 56 points)

Content (46 points) _____

Format (10 points) _____

Income Statement (Subtotal = 44 points)

Content (36 points) _____

Format (8 points) _____

TOTAL POINTS _____

**Mail to
Penn Foster
Student Service Center
925 Oak Street
Scranton, PA 18515**

CUT ALONG THIS LINE