

Granite Bay Jet Ski, Incorporated

Level I

5th Edition

Introduction

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Granite Bay Jet Ski, Inc., Level I – Introduction

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An Introduction To Granite Bay Jet Ski, Incorporated Level One

Granite Bay Jet Ski®, Incorporated, is a small, privately owned, personal watercraft business owned by majority stockholder Christopher Zakk, and several of his family and friends. Located on the shore of Folsom Lake, Granite Bay Jet Ski is an exclusive dealer for Kawasaki Jet Ski personal watercraft. The business also sells other brands of personal watercraft as well as watercraft accessories, provides excellent service for all watercraft, including parts and labor, and rents storage space to those who prefer to keep their watercraft equipment at the lake. Chris Zakk and family members are avid water sports enthusiasts and are directly involved in water and Jet Ski safety. They participate regularly in Jet Ski races and as a sponsor of water craft activities in the local area.

To complete the on-the-job training requirement for your accounting course, you have been placed in a four-week internship program with Granite Bay Jet Ski. You will be responsible for all of the accounting work from June 3 through June 30, including recording the transactions, auditing your work, and correcting all errors. Your internship will also require the printing and preparation of the financial statements, analysis of the statements and the business operations, and the closing of the books at the end of the second quarter, which ends on June 30. Since Granite Bay Jet Ski, Incorporated, uses a computerized accounting system, this opportunity to obtain hands-on experience and practice your accounting skills will be very rewarding and exciting.

The first step in operating the computerized system correctly is to review the chart of accounts. **A clear understanding** of how certain accounts are used by Granite Bay Jet Ski, Inc., **is required before you begin the recording process**. A detailed explanation of how several accounts are used in this accounting system follows on the next three pages. Pages 6, 7, and 8 list the full **Chart of Accounts** and page 9 displays the **Customer List** and **Vendor List** with the account numbers used to identify these individuals and businesses when entering the transactions. On page 10 is a summary of the important business facts you must be familiar with before you begin entering the transaction data.

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granted by Kawasaki Motors Corp., U.S.A.*

Chart of Accounts

To properly enter the accounting transactions for Granite Bay Jet Ski, Inc., you will need to familiarize yourself with the chart of accounts for the business. The business has four revenue accounts. **Watercraft and Accessory Sales** and **Sales Returns and Allowances** record all transactions involving the sale and return of merchandise items. **Service Fees Earned** accounts for fees earned in servicing customer watercraft. Sales tax (**7.0%**) is charged on all merchandise and service sales. The revenue account **Storage Fees Earned** is adjusted at the end of each accounting period to reflect all of the storage fees **that have been earned**. The liability account, **Unearned Storage Fees** is used to record all of the cash receipts for storage of customer watercraft and equipment. **Sales tax is not charged on storage fees.**

Granite Bay Jet Ski, Inc., accepts both **bank** credit cards and **company** credit cards. When a customer purchases merchandise using a bank credit card, the sale is entered as a **cash sale**. The credit card expense **is not recorded at the time of the sale**. For bank card charges, the business is charged a credit card fee (1-4%) which is recorded from a bank statement received at the end of the month.

If a customer uses a company credit card, it is recorded as a sale on account with **Accounts Receivable, Credit Card Companies** being debited for the charge. This process maintains a record of all the credit card charges owed to Granite Bay Jet Ski until payment arrives from the credit card company. The credit card expense is recorded when the cash is received from the credit card company. **Several accounts which require special attention are listed below:**

- 107** **Accounts Receivable, Credit Card Companies** records **all company credit card** sales. The *Western National Credit Card Company* is the credit card company used in this business simulation. (**All bank card sales** are recorded as **cash sales**.)
- 111** **Storage Fees Receivable** is used only for adjusting entries.
- 115** **Merchandise Inventory** is the inventory account for all watercraft, accessories, and parts.
- 121** **Prepaid Insurance** is debited for the purchase of all insurance policies.
- 123** **Prepaid Rent** is debited for rent payments made for more than one month in advance.
- 125** **Prepaid Advertising** is used only for adjusting entries. All advertising costs are debited directly to the Advertising Expense account.

- 127** **Store and Shop Supplies** is used only for adjusting entries. Since most store and shop supplies are consumed during the period, the Store and Shop Supplies Expense account is debited for all store and shop supply purchases. The value of the small amount of supplies that remain at the end of the accounting period is adjusted to the Store and Shop Supplies account.
- 205** **Sales Tax Payable** is credited for the **7.0% sales tax** that is charged for all Jet Ski, accessory, parts, and service sales. Sales tax is **not** charged on storage fees.
- 221** **Unearned Storage Fees** is a liability account and is credited directly for all storage fees received in advance. Sales tax is not charged on storage fees.
- 310** **Dividends Declared** is a contra equity account that is debited for all dividend declarations. At the end of each accounting period the account is closed to the Retained Earnings account as a part of the closing entry process. When the dividends declared are paid, Dividends Payable is debited and Cash is credited.
- 411** **Service Fees Earned** is credited for all customer service and is billed at a rate of **\$65.00** per hour.
- 421** **Storage Fees Earned** is used for adjusting entries at the end of the quarter. Unearned Storage Fees is credited for all storage fees received in advance.
- 501** **Cost of Goods Sold** is a Cost (Cost of Merchandise Sold) account and is debited for the cost of each merchandise inventory item that is sold. When a product is sold at a retail price and the sale entry is recorded, it is followed by a second entry to update the Merchandise Inventory account and the Cost of Goods (Merchandise) Sold account.
- 505** **Transportation-In** is the **Cost** account debited for all freight and delivery charges incurred in transporting merchandise to the Granite Bay Jet Ski receiving dock. Deliveries to customers are charged to Delivery Expense.
- 602** **Store and Shop Supplies Expense** is debited for all purchases of store and shop supplies. The value of any store and shop supplies that remain at the end of each accounting period is adjusted to the Store and Shop Supplies account.
- 604** **Advertising Expense** is debited directly for all advertising fees incurred.
- 606** **Delivery Expense** is debited for the delivery and freight charges incurred in shipping merchandise items to Granite Bay Jet Ski customers.

- 607 Credit Card Expense** accounts for the bank and company credit card fees charged to Granite Bay Jet Ski for allowing customers to use their credit cards to purchase merchandise and services. These fees will be between 1 and 4 percent of the total amount (including sales tax) of the customer charge. Credit card charges for bank cards will be accounted for at the end of the month when received on the bank statement. Credit card charges for the use of company credit cards will be recorded when the cash is received from the credit card company. **An end-of-the-period adjustment will be made at the end of each quarter to account for accrued credit card charges on credit card company receivables that will be collected during the subsequent quarter.** This adjusting entry will require a **debit** to the **Credit Card Expense** and a **credit** to **Accounts Receivable, Credit Card Companies**.
- 608 Tools Expense** is debited for all small purchases of store and shop tools. These items are expensed and therefore not depreciated.
- 621 Rent Expense** is used for adjusting entries at the end of the quarter. Rental fees paid in advance are debited to the Prepaid Rent account.
- 622 Insurance Expense** is used for adjusting entries at the end of the quarter. Insurance premiums are debited to the Prepaid Insurance account.
- 623 Professional Services Expense** is used to record the cost of hiring professional help such as accountants and business consultants to complete special service work for Granite Bay Jet Ski management.

When entering transactions in the Granite Bay Jet Ski, Inc., accounting system, all of the accounts will be identified by account number. You will see the account title appear instantly on the screen as you enter the account number. With the pointer at the account entry position, the account number can be entered manually or can be entered by clicking and selecting the appropriate account from the drop-down chart of accounts.

Special data entry procedures, that will make your work very efficient, have been built into the new Granite Bay Jet Ski accounting system. These procedures will be introduced and explained in detail in the first few transactions that you enter.

Detailed information on customer and vendor account activity and balances will be maintained automatically in the Accounts Receivable and the Accounts Payable ledgers. Information will be recorded in the system by identifying each customer or vendor/creditor by number.

Granite Bay Jet Ski, Incorporated
Chart of Accounts

ASSETS

101	Cash
102	Petty Cash
105	Accounts Receivable
107	Accounts Receivable, Credit Card Companies
109	Notes Receivable
111	Storage Fees Receivable
113	Interest Receivable
115	Merchandise Inventory
121	Prepaid Insurance
123	Prepaid Rent
125	Prepaid Advertising
127	Store and Shop Supplies
131	Store Equipment and Fixtures
132	Accumulated Depreciation, Store Equipment and Fixtures
135	Shop Equipment
136	Accumulated Depreciation, Shop Equipment
139	Trucks
140	Accumulated Depreciation, Trucks

LIABILITIES

201	Accounts Payable
203	Notes Payable
205	Sales Tax Payable
209	Salaries and Wages Payable
215	Interest Payable
218	Dividends Payable
221	Unearned Storage Fees

STOCKHOLDERS' EQUITY

301	Common Stock
305	Retained Earnings
310	Dividends Declared

Granite Bay Jet Ski, Incorporated
Chart of Accounts

REVENUE

- 401 Watercraft and Accessory Sales**
- 402 Sales Returns and Allowances**
- 411 Service Fees Earned**
- 421 Storage Fees Earned**

COST OF GOODS SOLD

- 501 Cost of Goods Sold**
- 505 Transportation-In**

OPERATING EXPENSES

- 601 Salaries and Wages Expense**
- 602 Store and Shop Supplies Expense**
- 603 Truck Operating Expense**
- 604 Advertising Expense**
- 606 Delivery Expense**
- 607 Credit Card Expense**
- 608 Tools Expense**
- 610 Depreciation Expense, Store Equipment and Fixtures**
- 611 Depreciation Expense, Shop Equipment**
- 612 Depreciation Expense, Trucks**
- 621 Rent Expense**
- 622 Insurance Expense**
- 623 Professional Services Expense**
- 624 Electric and Gas Expense**
- 625 Telephone Expense**
- 627 Bank Service Charges**
- 628 Cash Short and Over**
- 629 Miscellaneous Expense**

Granite Bay Jet Ski, Incorporated
Chart of Accounts

OTHER REVENUE

711 Interest Earned

OTHER EXPENSES

811 Interest Expense

INCOME SUMMARY

901 Income Summary

***Granite Bay Jet Ski, Incorporated
Customer List***

Customer Number	Customer
10100	Alex Bacon
10450	Browns Ravine Jet Skiers
10740	Clyde Ekers
10830	Folsom Lake Skimmers
10900	Charles Gervis
11250	Kerry Jenson
11300	Beverly Kyle
11375	Emma Larring
11450	Rachael Morgan
11625	Cheryl Newman
11700	Ophir Hill Ski Club
11775	Rocklin Jetters
11850	Mason Turner
11990	Waterrippers, Incorporated

***Granite Bay Jet Ski, Incorporated
Vendor List***

Vendor Number	Vendor
20300	Alfredo's Supply
21500	Bobcat Marine
22700	Clear Water, Incorporated
23800	Kawasaki, USA
24400	Larson Brothers, Incorporated
25000	Monster Sports Equipment
26600	Springview, Incorporated
28500	Vandecamp Sports
29900	Zeaman Sprintcraft

KEY DETAILS TO REMEMBER AS YOU JOURNALIZE TRANSACTIONS!

To properly and efficiently operate the computerized accounting system used by Granite Bay Jet Ski, you must be familiar with some basic business and account information and computer procedures. These procedures and details are summarized in the list below:

Sales tax of 7.0% is charged on all sales and labor. Sales tax is **not charged** on Storage Fees. When calculating sales tax, **round all amounts to the nearest cent** ($\$4.025768 = \4.03).

Credit Card Fees of 1-4% will be assessed by banks and credit card companies for customer credit card charges. Bank credit card fees will be accounted for at the end of the month from information received on the bank statement. Credit Card Company fees will be recorded when the cash is received from the credit card company.

Labor charges will be billed to customers at a rate of **\$65.00 per hour**. Where necessary, **round all calculations to the nearest cent**.

Granite Bay Jet Ski extends 30-day credit to all charge customers. All balances that are over the 30-day credit period are considered past due.

The **Chart of Accounts (press the Chart command button)** may be used at any **account prompt** to display the **Chart of Accounts**. Use the **scroll bar** to move through the chart.

When entering transactions, always use proper accounting procedure and enter the debit entries **first**. When **debits equal credits**, you will have a complete transaction to verify. If an error correction entry for cash requires a credit to cash and a check has not been issued, enter **ERROR** or **00000** as the check number.

You may terminate a journalizing session **at any time**. When you return to the General Journal at a later time, the last entry recorded will be displayed on the screen.

Go to the Log In screen of **PKL Software**. Click on the **Granite Bay Jet Ski** button. **Before logging in**, move the pointer to the **Download Granite Bay Manual** button and click. Select **Part 1, Transactions for June 3-9**, and print the manuscript.