

# *Granite Bay Jet Ski, Incorporated*

*Level II*

*5<sup>th</sup> Edition*

## *Introduction*

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

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# *An Introduction To Granite Bay Jet Ski, Incorporated Level Two*

**Granite Bay Jet Ski®, Incorporated**, is a small corporation, locally owned by several stockholders interested in promoting the growth of personal watercraft recreation in the Granite Bay area. Kevin Atwater and Bryant Cobb are major stockholders in the company, with full responsibility for its operation. They are salaried employees of the corporation and receive their salaries after the close of the fiscal year. The business, located on the shore of Folsom Lake, is the number one dealer in California for Kawasaki Jet Ski personal watercraft. The business also sells several other brands of personal watercraft and accessories, provides excellent service for all watercraft, including parts and labor, and rents storage space to customers who prefer to keep their watercraft equipment at the lake. Both Kevin and Bryant are former jet ski racing champions and are now involved extensively in jet ski safety and recreational riding.

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, Incorporated. You will be responsible for all of the accounting activities 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 business operations, and the closing of the books at the end of the second quarter, June 30. Since Granite Bay Jet Ski uses a computerized accounting system, this opportunity to obtain hands on experience and practice your accounting skills should be very rewarding and exciting.

The first step in operating the computerized system properly 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 four 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 the customers and vendors when entering the transactions. On page 10 and 11 is a summary of the special keys that may be used in the data entry process and a review of important business facts and information that must be used when entering the transaction data.

*\*Permission to use the registered trademark  
JET SKI 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; Sales Returns & Allowances; Service Fees Earned; and Storage Fees Earned.**

**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 and accessories. *Sales tax (8%) 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 initial cash receipts for storage of customer jet skis, watercraft, trailers, and equipment. *Sales tax is not charged on storage fees.*

Granite Bay Jet Ski, Inc., uses a **perpetual inventory system.** All purchases and sales of merchandise transactions will include additional data entry regarding the quantity and the specific item(s) being purchased or sold. This information will be an automatic part of each journal entry where merchandise is involved. This will maintain a constant updated record of the quantity of all merchandise on hand and the total value of the inventory.

Granite Bay Jet Ski, Inc., uses the **NET** method to record all purchases of merchandise. All purchases from vendors who extend cash discounts are **recorded at the NET cost** (the list price less the discount). Example: An inventory item with a \$1,200 list price and extended terms of 2/10, n/30 will be recorded as a debit to Merchandise Inventory for \$1,176 ( $\$1,200 \times .98$ ). All merchandise will be purchased on account and be credited to Accounts Payable. As each purchase invoice is paid on time, Accounts Payable will be debited and Cash credited. *On the rare occasion when a purchase invoice that offers a cash discount is, **through error, not paid within the discount period, the discount will be lost.*** This will require a debit to the **Discounts Lost** account and a credit to the **Accounts Payable** account. This credit to Accounts Payable will adjust the balance owed to the vendor to the full balance due (at list prices). This balance will then be paid in cash.

Under the perpetual inventory system, when any personal watercraft or accessories are sold for cash, on credit, or through customer use of a bank or company credit card, **a second entry is required to update the general ledger accounts.** This second entry will include a **debit to Cost of Goods Sold** and a **credit to Merchandise Inventory** and **WILL BE AUTOMATICALLY JOURNALIZED AND POSTED BY THE PROGRAM.**

Granite Bay Jet Ski 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 (1-4%) **is not** recorded at the time of the sale. For bank card charges the

business is charged a credit card fee which is recorded when noted on the bank statement received at the end of the month. If a customer uses a company credit card, the sale 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 of the credit card company charges that are owed to Granite Bay Jet Ski, Inc., until payment arrives from the credit card company. The credit card expense is recorded **when the cash payment is received from the credit card company**.

**Several accounts which require special attention are listed below:**

- 106 Allowance for Doubtful Accounts** is the contra current asset account that is debited then accounts receivable are written off as bad debts.
- 107 Accounts Receivable, Credit Card Companies** records all **company credit card** sales. When the cash is received from the credit card company, the credit card expense is recorded. (All **bank card** sales are recorded as **cash sales** with the credit card expense recorded at the end of the month after being charged by the bank.)
- 111 Storage Fees Receivable** is used to record accrued storage fees.
- 115 Merchandise Inventory** is the inventory account for all personal watercraft, accessories, and parts. The perpetual inventory system will maintain a running balance of the Merchandise Inventory account as well as the exact quantity of each product stocked by Granite Bay Jet Ski. The correct running balance of this account will be a major check figure given at the end of each week of data entry.
- 121 121 Prepaid Insurance** is debited for the purchase of all insurance policies.
- 125 Prepaid Advertising** is used only for adjusting entries. All advertising costs are debited directly to the Advertising Expense account.
- 126 Store and Shop Supplies** is debited for all purchases of supplies.
- 150 Land** owned by Granite Bay Jet Ski is currently used only as a minor storage facility, but future plans call for construction of a new store and a major storage warehouse.
- 205 Sales Tax Payable** records the **8% sales tax** that is charged for all merchandise sales, accessory and parts sales, and service sales. Sales tax is **not** charged on storage fees.
- 221 Unearned Storage Fees** is credited directly for all storage fees received in advance. To keep a storage space, customers are required to pay their fees for at least three months in advance. Sales tax is **not** charged on storage fees.

- 331 Dividends Declared** is debited for all official dividend declarations. At the end of each accounting period the account is closed to the **Retained Earnings** account.
- 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 adjusted at the end of the accounting period for all storage fees that **have been earned during the quarter**.
- 501 Cost of Goods Sold** is the Cost Account that is debited for the cost of each item sold. Under the perpetual inventory system, with each sale of merchandise, Cost of Goods Sold is debited and Merchandise is credited. With each sales return of merchandise, Merchandise is debited and Cost of Goods Sold is credited. As each sale or sales return entry is entered and the merchandise inventory involved is identified, the program will automatically record the entry to update the Cost of Goods Sold and the Merchandise Inventory accounts.
- 505 Transportation-In** is the **Cost Account** debited for all freight and delivery charges incurred in transporting merchandise to the Granite Bay Jet Ski, Inc., receiving dock. Most of the shipments of merchandise to Granite Bay are with FOB destination terms. The few shipments received with FOB shipping point (FOB factory) terms are charged to the Transportation-In account. The amounts charged to Transportation-In (usually not material) are added to the Cost of Goods Sold when calculating the Gross Profit of the business. Deliveries of merchandise items to customers are charged to **Delivery Expense**. Freight charges for the delivery of assets to the business are charged directly to the cost of the asset account.
- 602 Store and Shop Supplies Expense** is used only for adjusting entries.
- 604 Advertising Expense** is debited directly for all advertising fees incurred.
- 606 Delivery Expense** is an **Operating Expense Account** debited for the delivery and freight charges incurred in shipping merchandise items to customers.

- 607 **Credit Card Expense** accounts for the bank and company credit card fees charged to Granite Bay Jet Ski, Inc., 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 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 company receivables that will be collected during the subsequent quarter.
- 608 **Tools Expense** is debited for all small purchases of store and shop tools.
- 621 **Rent Expense** may be adjusted at the end of the accounting period for an amortized portion of the Leasehold Improvements account. Under a lease agreement, the regular monthly rent is paid by the business at the beginning of each month.
- 622 **Insurance Expense** is adjusted at the end of each accounting period.
- 623 **Bad Debt Expense** is estimated at the end of each quarter using the aging of accounts receivable method.
- 627 **Bank Service Charges** is debited for all service costs on the business checking account.
- 628 **License Expense** is debited for all business and vehicle license fees.
- 633 **Discounts Lost** is charged for the loss incurred when a purchase invoice, through error, is not paid on time (before the end of the discount period). When the NET purchases method is used to record the purchases of merchandise, an internal control system is established to insure that all invoices are paid in time to qualify for the discount. The Discounts Lost account should never have an entry if the control system is in place and is used properly. The Discounts Lost account is also referred to as the Purchases Discounts Lost account.
- 713 **Dividends Earned** is an **Other Revenue Account** that is credited for dividends earned on short-term investments.
- 721 **Gain on Sale of Assets** is an **Other Revenue Account** that is credited when the proceeds from the sale of a Plant and Equipment asset are greater than the book value of the asset. This account is **not used** in like-kind exchange (trade) transactions.

- 821 Loss on Sale/Disposal of Assets** is an **Other Expense Account** that is debited when a Plant and Equipment asset is sold and the proceeds of the sale are less than the book value of the asset. This account is also used to account for the loss incurred when an asset **with book value** is donated or given away. On like-kind exchange (trade) transactions, this account **is used** to account for small losses incurred on trading.
- 901 Income Summary Account** is used during the **automatic closing procedure**. This account is not to be used during the daily or adjusting entries.

When entering the transactions in the Granite Bay Jet Ski, Incorporated 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 cursor at the account title entry prompt, the chart of accounts can be displayed on the screen by clicking on the down arrow at the prompt. Use the scroll bar to move through the chart.

Special data entry procedures that will make your work more efficient have been built into the new Granite Bay Jet Ski, Incorporated accounting system. These procedures will be introduced and explained in detail in the first few entries that you journalize for June 3, 4, and 5.

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**

<b>101</b>	<b>Cash</b>
<b>102</b>	<b>Petty Cash</b>
<b>103</b>	<b>Short-Term Investments</b>
<b>105</b>	<b>Accounts Receivable</b>
<b>106</b>	<b>Allowance for Doubtful Accounts</b>
<b>107</b>	<b>Accounts Receivable, Credit Card Companies</b>
<b>109</b>	<b>Notes Receivable</b>
<b>111</b>	<b>Storage Fees Receivable</b>
<b>113</b>	<b>Interest Receivable</b>
<b>115</b>	<b>Merchandise Inventory</b>
<b>121</b>	<b>Prepaid Insurance</b>
<b>124</b>	<b>Prepaid Property Tax</b>
<b>125</b>	<b>Prepaid Advertising</b>
<b>127</b>	<b>Store and Shop Supplies</b>
<b>131</b>	<b>Store Equipment and Fixtures</b>
<b>132</b>	<b>Accumulated Depreciation, Store Equipment and Fixtures</b>
<b>135</b>	<b>Shop Equipment</b>
<b>136</b>	<b>Accumulated Depreciation, Shop Equipment</b>
<b>139</b>	<b>Trucks</b>
<b>140</b>	<b>Accumulated Depreciation, Trucks</b>



***Granite Bay Jet Ski, Incorporated***  
***Chart of Accounts***

**LIABILITIES**

<b>201</b>	<b>Accounts Payable</b>
<b>203</b>	<b>Notes Payable</b>
<b>205</b>	<b>Sales Tax Payable</b>
<b>207</b>	<b>Dividends Payable</b>
<b>209</b>	<b>Salaries and Wages Payable</b>
<b>211</b>	<b>Estimated Property Taxes Payable</b>
<b>213</b>	<b>Income Taxes Payable</b>
<b>215</b>	<b>Interest Payable</b>
<b>221</b>	<b>Unearned Storage Fees</b>
<b>230</b>	<b>Long-term Notes Payable</b>

**STOCKHOLDERS' EQUITY**

<b>301</b>	<b>Common Stock</b>
<b>305</b>	<b>Retained Earnings</b>
<b>311</b>	<b>Dividends Declared</b>

**REVENUE**

<b>401</b>	<b>Watercraft and Accessory Sales</b>
<b>402</b>	<b>Sales Returns and Allowances</b>
<b>411</b>	<b>Service Fees Earned</b>
<b>421</b>	<b>Storage Fees Earned</b>

**COST OF GOODS SOLD**

<b>501</b>	<b>Cost of Goods Sold</b>
<b>505</b>	<b>Transportation-In</b>

***Granite Bay Jet Ski, Incorporated***  
***Chart of Accounts***

**OPERATING EXPENSES**

**Store and Shop Expenses**

- 601 Salaries and Wages Expense
- 602 Store and Shop Supplies Expense
- 603 Truck and Equipment 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

**Administrative Expenses**

- 621 Rent Expense
- 622 Insurance Expense
- 623 Bad Debt Expense
- 624 Property Tax Expense
- 625 Electric and Gas Expense
- 626 Telephone Expense
- 627 Bank Service Charges
- 628 License Expense
- 629 Professional Services Expense
- 631 Cash Short and Over
- 633 Discounts Lost
- 635 Miscellaneous Expense

**OTHER REVENUE**

- 711 Interest Earned
- 713 Dividends Earned
- 721 Gain on Sale of Assets
- 731 Gain on Short-Term Investments
- 741 Miscellaneous Revenue

***Granite Bay Jet Ski, Incorporated  
Chart of Accounts***

**OTHER EXPENSES**

<b>811</b>	<b>Income Tax Expense</b>
<b>813</b>	<b>Interest Expense</b>
<b>821</b>	<b>Loss on Sale/Disposal of Assets</b>
<b>831</b>	<b>Loss on Short-Term Investments</b>

**INCOME SUMMARY**

<b>901</b>	<b>Income Summary</b>
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***Granite Bay Jet Ski, Incorporated  
Customer List***

<b>Customer Number</b>	<b>Customer</b>
<b>10300</b>	<b>Arlene Burnet</b>
<b>10550</b>	<b>Browns Ravine Jet Skiers</b>
<b>10890</b>	<b>Sean Dee</b>
<b>10930</b>	<b>Folsom Lake Skimmers</b>
<b>11100</b>	<b>Charles Grubonski</b>
<b>11220</b>	<b>Isabelle Hart</b>
<b>11340</b>	<b>Buster Jenkins</b>
<b>11560</b>	<b>Chris Nelson</b>
<b>11640</b>	<b>Paul Owens</b>
<b>11685</b>	<b>Hazel Peske</b>
<b>11780</b>	<b>Royal Bar Jetters</b>
<b>11850</b>	<b>Sierra Jet Set</b>
<b>11960</b>	<b>Don Temple</b>
<b>11990</b>	<b>Waterrippers, Inc.</b>

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

<b>Vendor Number</b>	<b>Vendor</b>
20110	Andregg Supply Net 30
20950	Bonnie's Marine Supply Net 30
22400	Clear Water, Incorporated 2/10, n/30
24100	Jacoby, Incorporated Net 10
24500	Kawasaki USA 2/10, n/30
26950	Larson Sports Equipment Net 30
27400	Riordan Marine, Incorporated Net 30
28600	Starlight Sports 1/10, n/30
29650	Water Dancer Jetcraft 1/10, n/30

**KEY DETAILS TO REMEMBER AS YOU JOURNALIZE TRANSACTIONS**

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

**Sales tax of 8%** 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% to 4%** will be assessed by banks and credit card companies. 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**.

For all **interest calculations** use exact days and a 360-day banker's year. For all interest and discount calculations **round the interest or discount amount to the nearest cent**.

**All sales or sales returns of merchandise items will require two entries**. After the regular sales or sales return entry has been recorded and posted, the program will **automatically** record the second entry required with an update to the **Cost of Goods Sold** and the **Merchandise Inventory** accounts.

**Inventory information** is entered into the system for any journal entry that changes the quantity/value of the Merchandise Inventory account. When a journal entry for any sales, sales return, merchandise purchase, or merchandise return transaction is verified, documentation supporting the journal entry is required. When the documentation data is verified, the inventory information is requested. When the inventory information matches the sales or purchase amount in the journal entry, **click on Post Entry** and the general ledger, subsidiary ledger, and the inventory ledger will be updated.

As a business control feature, the **NET method** is used to record all merchandise purchases. It is intended that all invoices be paid on time. If an error is made and an invoice is not paid on time, the cost of this error will be recorded in the **Discounts Lost** account.

All personal watercraft and watercraft trailers carry a **25% markup on net cost** (20% markup on selling price). All accessories carry a **100% markup on net cost** (50% markup on selling price). **Example:** A jet ski with a net cost of \$5,000 would sell at retail for \$6,250 ( $\$5,000 \times 1.25$ ). An accessory with a net cost of \$4.50 would sell at retail for \$9.00.

Granite Bay Jet Ski, Incorporated, extends **30-day credit to all charge customers**. **Balances that are over the 30-day credit period are considered past due.**

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.

An **ERROR CORRECTION ENTRY** with a credit to the Merchandise Inventory account will request a debit memo number. At the debit memo prompt enter **ERROR**.

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