

# *Rebel Ridge Snowmobile, Inc.*

*1<sup>st</sup> Web-Based Edition*

## *Introduction*

# *An Introduction To Rebel Ridge Snowmobile*

**Rebel Ridge Snowmobile** is a small corporation owned by Robert Ballinger, Wesley Caruso, and Glenn Weeks. In addition to being owners of the business, they are salaried employees and receive salaries at the end of each month. The business, located in the small northern California town of North San Juan rents a building for its showroom and sales operations and owns a small, adjacent building for receiving and shipping of merchandise, with space allocated for the financial affairs of the business.

To complete the on-the-job training requirement for your accounting course, you have been placed in a four-week internship program with Rebel Ridge Snowmobile. You will assist the financial officer, Glenn Weeks, in recording daily transactions, preparing the bank reconciliation, recording adjusting entries, preparing financial statements, and closing the ledgers for the last month of the year, December 31. **The company began operations on October 1, and has opted to close its books at the end of each quarter.**

Rebel Ridge Snowmobile uses financial and accounting software it purchased from PKL Software, Inc. The web-based software is used for all data entry and financial statement reports. With this software, journal entries for closing the ledgers are automatically recorded and posted to the general ledger. Since Rebel Ridge Snowmobile uses a web-based 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 Rebel Ridge Snowmobile **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 two pages. Pages 5 and 6 list the full **Chart of Accounts** and Page 7 displays the **Customer List** and **Vendor List** with the account numbers used to identify the customers and vendors when entering the transactions. On Page 8 is a summary of special details to remember when recording the transactions of the business.

# *Chart of Accounts*

To properly enter the accounting transactions for Rebel Ridge Snowmobile, Inc., you will need to familiarize yourself with the chart of accounts for the business. The business has two revenue accounts: (1) **Sales** and (2) **Sales Returns and Allowances**. *Sales tax is not used in this project.*

Rebel Ridge Snowmobile uses a **perpetual inventory system**. This will maintain a constant updated record of the total value of the inventory in stock on any given day.

Under the perpetual inventory system, when any personal watercraft or accessories are sold for cash, on credit, or through customer use of a bank 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**. **THE SOFTWARE WILL AUTOMATICALLY JOURNALIZE AND POST THIS ENTRY FOR YOU.**

Rebel Ridge Snowmobile 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 credited to Accounts Payable. As each purchase invoice is paid on time, Accounts Payable will be debited and Cash credited.

Rebel Ridge Snowmobile accepts **bank** credit cards. When customers purchase merchandise using bank credit cards, the sale is entered as a **cash sale**. The credit card expense **is not** recorded at the time of the sale. The business is charged a credit card fee which is recorded when noted on the bank statement received at the end of the month. **Several accounts which require special attention are listed below:**

- 102 Petty Cash** is used for making change for cash sales and as a source of funds for small miscellaneous transactions.
- 115 Merchandise Inventory** is the inventory account for all snowmobiles and snowmobile parts. The perpetual inventory system will maintain a running balance of the Merchandise Inventory account.
- 121 Prepaid Insurance** is debited for all purchases of insurance policies.
- 125 Prepaid Advertising** *is used only for adjusting entries*. All advertising costs are debited directly to the Advertising Expense account.
- 127 Store Supplies** is debited for all purchases of store supplies
- 129 Office Supplies** is debited for all purchases of office supplies.

- 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 Rebel Ridge Snowmobile receiving dock**. Most of the shipments of merchandise 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 Supplies Expense** is used only for adjusting entries.
- 604 Advertising Expense** is used to record all payments for advertising.
- 606 Delivery Expense** is an **Operating Expense Account** debited for the delivery and freight charges incurred in shipping merchandise to customers.
- 607 Credit Card Expense** accounts for the bank card fees charged to Rebel Ridge Snowmobile 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 of the customer charge. Credit card charges for bank cards will be accounted for at the end of the month on the bank statement.
- 613 Office Supplies Expense** is used only for adjusting entries.
- 621 Rent Expense** may be adjusted at the end of the accounting period for the portion of expired prepaid rent.
- 622 Insurance Expense** is adjusted at the end of each accounting period.
- 627 Bank Service Charges** is debited for all service costs on the business checking account.
- 901 Income Summary Account** is used during the **automatic closing procedure**. This account is not used for daily or adjusting entries.

## *Rebel Ridge Snowmobile Chart of Accounts*

### ASSETS

101	Cash
102	Petty Cash
105	Accounts Receivable
109	Notes Receivable
113	Interest Receivable
115	Merchandise Inventory
121	Prepaid Insurance
123	Prepaid Rent
125	Prepaid Advertising
127	Store Supplies
129	Office Supplies
130	Store Fixtures
132	Accumulated Depreciation, Store Fixtures
134	Office Equipment
136	Accumulated Depreciation, Office Equipment
138	Building
140	Accumulated Depreciation, Building

### LIABILITIES

201	Accounts Payable
203	Notes Payable
209	Salaries and Wages Payable
215	Interest Payable

### STOCKHOLDERS' EQUITY

301	Common Stock
305	Retained Earnings
308	Cash Dividends

### REVENUE

401	Sales
402	Sales Returns and Allowances

***Rebel Ridge Snowmobile  
Chart of Accounts***

**COST OF GOODS SOLD**

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

**OPERATING EXPENSES**

**Store Expenses**

- 601 Salaries and Wages Expense**
- 602 Store Supplies Expense**
- 604 Advertising Expense**
- 606 Delivery Expense**
- 607 Credit Card Expense**
- 610 Depreciation Expense, Store Fixtures**

**Administrative Expenses**

- 611 Depreciation Expense, Office Equipment**
- 612 Depreciation Expense, Building**
- 613 Office Supplies Expense**
- 621 Rent Expense**
- 622 Insurance Expense**
- 623 Professional Services Expense**
- 624 Utilities Expense**
- 625 Telephone Expense**
- 627 Bank Service Charges**
- 629 Miscellaneous Expense**

**OTHER REVENUE**

- 711 Interest Earned**

**OTHER EXPENSES**

- 811 Interest Expense**

**INCOME SUMMARY**

- 901 Income Summary**

***Rebel Ridge Snowmobile  
Customer List***

<b>Customer Number</b>	<b>Customer</b>
<b>10110</b>	<b>Alexander Boxer</b>
<b>10440</b>	<b>Helen Ballard</b>
<b>10720</b>	<b>Daylite Snowmobile Club</b>
<b>10950</b>	<b>Clifford Graham</b>
<b>11200</b>	<b>Klem's Snowmobile Klub</b>
<b>11390</b>	<b>Grace Maunder</b>
<b>11500</b>	<b>Sierra Buttes Bunnies</b>
<b>11700</b>	<b>Sierra City Snowmobilers</b>
<b>11800</b>	<b>Emory Yonkers</b>

***Rebel Ridge Snowmobile  
Vendor List***

<b>Vendor Number</b>	<b>Vendor</b>	<b>Terms Offered</b>
<b>20150</b>	<b>Boyd Business Supply</b>	<b>Net 30</b>
<b>21300</b>	<b>Douglas Janitorial</b>	<b>Net 30</b>
<b>22100</b>	<b>Edwards Sporting Goods</b>	<b>2/10, n/30</b>
<b>25300</b>	<b>High Sierra Sports</b>	<b>2/10, n/30</b>
<b>27000</b>	<b>Prospector Diggins</b>	<b>Net 30</b>
<b>28600</b>	<b>Sierra Buttes Sports</b>	<b>1/10, n/30</b>
<b>29500</b>	<b>Tri-City Snowmobilers</b>	<b>Net 30</b>

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

To properly and efficiently operate the web-based accounting system used by Rebel Ridge Snowmobile, 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:

**Credit Card Fees of 1% to 4%** will be assessed by banks. Bank credit card fees will be accounted for at the end of the month from information received on the bank statement.

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 a debit to the **Cost of Goods Sold** and a credit to the **Merchandise Inventory** accounts.

Rebel Ridge Snowmobile 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.** After entering the transaction, you will be required to **Verify** the journal. **The program will verify the equality of debits and credits before you can enter documentation and post the entry to the general ledger.** **When the documentation information has been entered, it also must be verified.** **When the Post light comes on, the entry is ready to post to the ledger cards.**

In the Rebel Ridge Snowmobile 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 or select the account from the pull-down screen. 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 web-based Rebel Ridge Snowmobile accounting system. These procedures will be introduced and explained in detail in the first few entries that you journalize for December 3 and 4.

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.

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