

# *Veideretti Cabinets, Incorporated*

## *Introduction*

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Veideretti Cabinets, Incorporated – Introduction

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# *An Introduction To Veideretti Cabinets, Incorporated*

**Veideretti Cabinets, Incorporated**, (pronounced Vi-der-etty) is a small, privately owned, custom closet and garage cabinet components wholesaler-retailer enterprise owned by majority stockholder Edward Perry. Several of his family and friends are minority stockholders. The business also installs closet and garage cabinet components.

To test your understanding of the accounting cycle, your ability to research general ledger and subsidiary accounts, and analyze financial statements, you will be recording business transactions from June 24 through June 30, including correcting errors, auditing your work, printing and preparing the financial statements, analyzing the statements and the results of operations, identifying the components of cash flows, and closing the general ledger at the end of the second quarter, which ends on June 30. Since Veideretti Cabinets, Incorporated, uses a computerized accounting system, this opportunity to obtain hands-on experience and test 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 Veideretti Cabinets **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 4, 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 these individuals and businesses when entering the transactions. Pages 8 to 10 show several accounts which require special attention. On page 11 is a summary of the important business facts you must be familiar with before you begin entering the transaction data.

## **Heads Up:**

**At the beginning of each module is a ‘Heads Up’ describing transactions to be recorded (journalized) that are not considered to be day-to-day business transactions of buying and selling merchandise or paying operating expenses. Be sure to review for these types of transactions before completing the module.**

# *Chart of Accounts*

To properly enter the accounting transactions for Veideretti Cabinets, you will need to familiarize yourself with the chart of accounts for the business. The business has three revenue accounts. **Cabinet Sales** is used to record all transactions involving the sale of cabinet components. Sales tax (**7.0%**) is charged on the sales of all cabinet components. **Sales Returns and Allowances** is used to record the return of cabinet components. **Installation Revenues** accounts for fees earned in installing cabinet components. **Sales tax is not charged on installation fees.** The liability account, **Unearned Revenues** is used to record all of the cash receipts for cabinet installations not yet performed.

Veideretti Cabinets 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 Veideretti Cabinets until payment arrives from the credit card company. The credit card expense is recorded when the cash is received from the credit card company

When entering transactions in the Veideretti Cabinets 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 prompt, the **Chart of Accounts** may be displayed on the screen by clicking on the **Chart** of Accounts button. You may use the scroll bar to move through the chart.

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.

***Veideretti Cabinets, Incorporated***  
***Chart of Accounts***

**ASSETS**

<b>101</b>	<b>Cash</b>
<b>102</b>	<b>Petty Cash</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>123</b>	<b>Prepaid Rent</b>
<b>125</b>	<b>Prepaid Advertising</b>
<b>127</b>	<b>Store Supplies</b>
<b>128</b>	<b>Shop Supplies</b>
<b>131</b>	<b>Store Fixtures</b>
<b>132</b>	<b>Accumulated Depreciation, Store Fixtures</b>
<b>135</b>	<b>Shop Equipment</b>
<b>136</b>	<b>Accumulated Depreciation, Shop Equipment</b>
<b>139</b>	<b>Delivery Vehicles</b>
<b>140</b>	<b>Accumulated Depreciation, Delivery Vehicles</b>

**LIABILITIES**

<b>201</b>	<b>Accounts Payable</b>
<b>203</b>	<b>Notes Payable</b>
<b>205</b>	<b>Sales Tax Payable</b>
<b>209</b>	<b>Salaries and Wages Payable</b>
<b>215</b>	<b>Interest Payable</b>
<b>218</b>	<b>Dividends Payable</b>
<b>221</b>	<b>Unearned Revenues</b>

**STOCKHOLDERS' EQUITY**

<b>301</b>	<b>Common Stock</b>
<b>305</b>	<b>Retained Earnings</b>
<b>310</b>	<b>Dividends Declared</b>

***Veideretti Cabinets, Incorporated***  
***Chart of Accounts continued...***

**REVENUE**

- 401 Cabinet Sales**
- 402 Sales Returns and Allowances**
- 405 Installation Revenues**

**COST OF GOODS SOLD**

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

**OPERATING EXPENSES**

- 601 Salaries and Wages Expense**
- 602 Store Supplies Expense**
- 603 Shop Supplies Expense**
- 604 Delivery Vehicles Expense**
- 605 Advertising Expense**
- 606 Delivery Expense**
- 607 Credit Card Expense**
- 608 Tools Expense**
- 609 Bad Debts Expense**
- 610 Depreciation Expense, Store Fixtures**
- 611 Depreciation Expense, Shop Equipment**
- 612 Depreciation Expense, Delivery Vehicles**
- 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**

*Veideretti Cabinets, Incorporated*  
*Chart of Accounts continued...*

**OTHER REVENUE**

**711 Interest Earned**

**OTHER EXPENSES**

**810 Loss on Asset Disposal**

**811 Interest Expense**

**INCOME SUMMARY**

**901 Income Summary**

***Veideretti Cabinets, Incorporated  
Customer List***

<b>Customer Number</b>	<b>Customer</b>
<b>10100</b>	<b>Alex Black</b>
<b>10450</b>	<b>Brown's Custom Cabinet</b>
<b>10740</b>	<b>Chad Hana</b>
<b>10830</b>	<b>Francis Realtors</b>
<b>10900</b>	<b>George's Home Show Room</b>
<b>11250</b>	<b>Home Improvements</b>
<b>11300</b>	<b>John's Cabinets</b>
<b>11375</b>	<b>Lakeside Homes</b>
<b>11450</b>	<b>Manor Settings</b>
<b>11625</b>	<b>Ralph Mapping</b>
<b>11700</b>	<b>Rogers of Rocklin</b>
<b>11775</b>	<b>Sunrise Homes</b>
<b>11850</b>	<b>Tri-County Cabinets</b>
<b>11990</b>	<b>Westside Constructions</b>

***Veideretti Cabinets, Incorporated  
Vendor List***

<b>Vendor Number</b>	<b>Vendor</b>
<b>20300</b>	<b>Alfred's Machinery</b>
<b>21500</b>	<b>Bay Side Cabinets</b>
<b>22700</b>	<b>Champion Plywood</b>
<b>23800</b>	<b>Downieville Cabinets</b>
<b>24400</b>	<b>LakeWood, Inc.</b>
<b>25000</b>	<b>Mortimer Tools</b>
<b>26600</b>	<b>San Juan Lumber</b>
<b>28500</b>	<b>Visgoth Finishes</b>
<b>29900</b>	<b>Westwood Supplies</b>

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

- 107** **Accounts Receivable, Credit Card Companies** records **all company credit card** sales. The *American Credit Card Company* is the credit card company used in this business simulation. (**All bank card sales** are recorded as **cash sales**.)
- 115** **Merchandise Inventory** is the inventory account for all cabinet components.
- 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 Supplies** is used only for adjusting entries. Since most store supplies are consumed during the period, the Store Supplies Expense account is debited for all store supply purchases. The value of the small amount of supplies that remain at the end of the accounting period is adjusted to the Store Supplies account.
- 128** **Shop Supplies** is used only for adjusting entries. Since most shop supplies are consumed during the period, the Shop Supplies Expense account is debited for all shop supply purchases. The value of the small amount of supplies that remain at the end of the accounting period is adjusted to the Shop Supplies account.
- 205** **Sales Tax Payable** is credited for the **7.0% sales tax** that is charged for all cabinet component sales. Sales tax is **not** charged on installation fees.
- 221** **Unearned Revenues** is a liability account and is credited directly for all installation fees received in advance. Sales tax is not charged on installation 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.
- 405** **Installation Revenue** is credited for all cabinet installations and is billed at a rate of **\$100.00** per hour.



- 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 Veideretti receiving dock. Deliveries to customers are charged to Delivery Expense.
- 602 Store Supplies Expense** is debited for all purchases of store supplies. The value of any store supplies that remain at the end of each accounting period is adjusted to the Store Supplies account.
- 603 Shop Supplies Expense** is debited for all purchases of shop supplies. The value of any shop supplies that remain at the end of each accounting period is adjusted to the Shop Supplies account.
- 605 Advertising Expense** is debited directly for all advertising fees incurred.
- 606 Delivery Expense** is debited for the delivery and freight charges incurred in shipping cabinet components to Veideretti Cabinet customers.
- 607 Credit Card Expense** accounts for the bank and company credit card fees charged to Veideretti Cabinets 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 shop tools. These items are expensed and therefore not depreciated.
- 609 Bad Debts Expense** is used to adjust the Allowance for Doubtful Accounts at the end of each quarter.

- 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 the management of Veideretti Cabinets.
- 810 Loss on Asset Disposal** is used to record the loss on a plant asset that occurs when the asset is sold for less than its book value or is discarded.

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

To properly and efficiently operate the computerized accounting system used by Veideretti Cabinets, 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 installation 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 **\$100.00 per hour.**

**Veideretti Cabinets 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 drop down list box arrow)** may be used at any **account prompt** to display the **Chart of Accounts**. Use the **scroll bar** to move through the chart. You can also enter the account number if you choose.

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.

The pull-down menu item **Chart of Accounts** may be used to display the **Chart of Accounts**. Use the **vertical 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. Click the **Verify Documents** button to have the system make sure debits equal credits. 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.

Go to the Log In screen of **PKL Software**. Click on the **Veideretti Cabinets** button. **Before logging in**, move the pointer to the **Download Veideretti Manual** button and click. Select **Transactions for June 24 to June 30**, and print the manuscript.

# ERROR CORRECTION PROCEDURES

## For the Veideretti Cabinets, Incorporated, Accounting System

For **accuracy, efficiency, and a clear audit trail**, use **ONLY** the correction system designed for the Veideretti Cabinets, Inc., accounting system. **Any account that is not correct is a MAJOR CLUE for you to check out.** If, for example, you do not match the correct balance of the Accounts Receivable account, carefully check the journal entries involving that account. However, if sales tax payable is one of the accounts you do not match, this is a strong indication that you have one or more errors in the entries involving the sale of merchandise or services. USE only the Error Correction Procedures outlined below.

### JOURNAL ENTRY CORRECTION

Carefully examine all entries recorded for each period and when an error is found use the following correction procedure:

1. **Back the transaction out using the date used in the error entry.**
2. **Enter the correct transaction using the correct date of the original entry.**

If, for example, you find that a cash sales transaction for June 24 was entered without recording the sales tax, simply **back out (reverse)** the error as follows:

June 24	Cabinet Sales	8,000.00	
	Cash		8,000.00

Enter **ERROR** at the check number prompt since this is a **correction** to cash and **does not** involve the issuance of another check. When the entry has been verified, the accounts will now show the original balances in place before the error entry.

Using the same June 24 date, record the correct entry.

June 24	Cash	8,560.00	
	Watercraft and Accessory Sales		8,000.00
	Sales Tax Payable		856.00

**The error entry, the back out entry, and the correction entry will appear in the accounting records leaving a clear, easy-to-follow audit trail.**